SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

(as of January 13, 2021)

**Floating Rate Notes**

[BACKGROUND INFORMATION – DELETE BEFORE SENDING: Under MSRB Rule G‐17, the underwriters must provide an issuer with disclosures about complex municipal securities financings that they recommend to the issuer for a negotiated offering. Floating Rate Notes generally will be treated as a complex municipal securities financing. DELETE ANY DRAFTER’S NOTES/FOOTNOTES BEFORE SENDING.]

The following is a general description of the financial characteristics of Floating Rate Notes

(FRNs), as well as a general description of certain financial risks that are known to us and

reasonably foreseeable at this time and that you should consider before deciding whether to

issue FRNs. If you have any questions or concerns about these disclosures, please make

those questions or concerns known immediately to us. In addition, you should consult with your

financial and/or municipal, legal, accounting, tax, and other advisors, as applicable, to the extent

you deem appropriate. [DELETE THE FOLLOWING SENTENCE IF THE ISSUER HAS

DETERMINED THE STRUCTURE OF THE FINANCING: [If you decide that you would like to

pursue this financing alternative, we may provide you with additional information more specific

to your FRN issue.]]

[IF A CONDUIT ISSUE, ADD THE FOLLOWING: [As the issuer of the FRNs, you will be a party to the bond purchase agreement and certain other legal documents to be entered into in connection with the issuance of the FRNs, but the material financial risks described below will be borne by the obligor, as set forth in those legal documents. A copy of our disclosure letter is also being sent to the obligor. In such case, any reference below to “you” or “your” shall refer to the obligor, unless otherwise noted because of the transaction’s terms.] [DRAFTER’S NOTE: change a “you” or “your” depending on whether the issuer or the obligor bears the obligation under the transaction’s terms, particularly in the *Financial Characteristics* section below.]

**Financial Characteristics**

*Maturity and Interest*. FRNs are debt securities either with short-term maturities (generally one

to five years) or with nominal long-term maturities coupled with a mandatory tender for purchase

after a stated period (in either case, the Floating Rate Note Period) that also generally is one to

five years in length. The purchase price of the FRNs subject to mandatory tender at the end of

the Floating Rate Note Period is 100% of the principal amount (par). FRNs may be issued as

part of a multi-modal issue or as a separate issue of securities. If the FRNs are not retired at

maturity or at the end of the Floating Rate Note Period, as the case may be, the FRNs may be

remarketed into or refinanced by new FRNs, variable rate demand obligations (VRDOs), fixed rate bonds or other obligations, or by entering into a new Floating Rate Note Period. FRNs may be offered to investors in authorized denominations of $5,000 or any integral multiple. FRNs typically are sold without third-party credit or liquidity support.

The interest rate on FRNs floats (i.e., is reset daily, weekly, quarterly, or annually), based on a spread to an index (typically, either the SIFMA Index, LIBOR, or very recently, SOFR, each briefly described below, or such other indices that may exist in the future), subject to any applicable maximum interest rate. The spread will be fixed for the duration of the Floating Rate Note Period and will be determined at the time of pricing of the FRNs, based on your credit ratings, if any, your financial condition, general market conditions, the duration of the Floating Rate Note Period and whether interest is intended to be taxable or tax-exempt. The maximum interest rate for FRNs generally will range between 9% per annum and 15% per annum. Interest on FRNs typically is paid monthly or semiannually.

“*SIFMA Index,*” or the SIFMA Municipal Swap Index, is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Obligations (VRDOs) with certain characteristics. The Index is calculated and published by Bloomberg on Wednesdays at approximately 4pm EST. The Index is overseen by SIFMA’s Municipal Swap Index Committee. In our capacity as a remarketing agent, we may remarket VRDOs that are included in

calculating the SIFMA Index.

*“LIBOR*” is the London-Interbank Offered Rate, which is an interest rate for a specified period for

US Dollar investments that is administered by the ICE Benchmark Administration Limited (IBA). LIBOR is determined each day at 11am (London time) and is the average rate (with some adjustments) derived from the quotations provided by certain reference banks that are determined by the IBA. [IF APPLICABLE, ADD THE FOLLOWING: [We or an affiliate may be a reference bank for purposes of setting LIBOR.]]

*“SOFR”* is the Secured Overnight Financing Rate published by the Federal Reserve and described as the broad measure of the cost of borrowing cash overnight collateralized by US Treasury securities. It is calculated as a volume-weighted median of transaction-level tri-party repo data. Each business day, the New York Fed publishes SOFR on the New York Fed website at approximately 8am EST. The Federal Reserve notes on its publication page for SOFR that use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve may alter the methods of calculation, publication schedule, rate revision practices, or availability of SOFR at any time without notice.

In most cases, the authorizing documents for FRNs include an alternate (or fallback) mechanism for determining the interest rate on FRNs if the SIFMA Index, LIBOR, SOFR, or such other indices that may exist in the future, as applicable, is not calculated. You should discuss with your legal counsel and financial advisor whether any such alternate mechanism is sufficient in connection with your transaction.

*Redemption*. FRNs generally will not be subject to optional redemption until six months prior to

the maturity date or the end of the Floating Rate Note Period. If optional redemption is

permitted, FRNs may be redeemed on any business day during that six-month window at a

redemption price of par plus accrued interest. You will be required to send out a notice of optional redemption to the holders of the FRNs.

*Mandatory Tender at End of Floating Rate Note Period.* Unlike VRDOs, FRNs are not subject to optional or mandatory tender during a Floating Rate Note Period. FRNs (unless maturing) are subject to mandatory tender by the holders at par at the end of the Floating Rate Note Period. If you intend to remarket the FRNs at the end of the Floating Rate Note Period, you will be required to appoint a broker-dealer or a municipal securities dealer as remarketing agent to sell the FRNs at the end of the Floating Rate Note Period. You will negotiate the terms of the remarketing, including the remarketing fee, at the time of the remarketing. The remarketing agent generally either will agree to underwrite or to use its best efforts to remarket the FRNs into a new Floating Rate Note Period or as VRDOs, fixed rate bonds or other obligations.

Depending on the terms of the FRNs, you may be obligated to fund the purchase price of the FRNs if the remarketing agent is unable to successfully remarket the FRNs or if you are unable to refinance the FRNs at the end of the Floating Rate Note Period. In that situation (referred to as a “hard put”), if you do not provide sufficient funds, you will be in default. In other instances (referred to as a “soft put”), if the remarketing agent is unable to successfully remarket the FRNs or if you are unable to refinance the FRNs at the end of the Floating Rate Note Period, you will not be obligated to fund the purchase price of the FRNs, but the interest rate that you pay on the FRNs will increase. That adjusted interest rate, after the passage of a specified period, could go as high as the maximum interest rate and remain at that level until the FRNs are paid in full. The terms of any hard put or soft put can vary and will be negotiated in connection with the issuance of the FRNs and will be set forth in the authorizing documents for the FRNs.

[IF APPROPRIATE FOR A PARTICULAR ISSUER OR TRANSACTION, PORTIONS OF THE

RISK DISCLOSURE FOR FIXED RATE BONDS MAY BE INSERTED, SUCH AS, FOR

EXAMPLE, EXCERPTS FROM THE “SECURITY” SECTION TO DESCRIBE THE RELEVANT

SECURITY FOR THE FRNs.]

**Financial Risk Considerations**

Certain risks may arise in connection with your issuance of FRNs, including some or all the

following (generally, the obligor, rather than the issuer, will bear these risks for conduit revenue

bonds):

*Interest Rate Risk*. Interest rate risk is the possibility that the interest rate that you pay on FRNs during the Floating Rate Note Period may increase, which can be triggered by factors such as a general increase in short-term interest rates or in the index on which the interest rate is based. In addition, at the end of a Floating Rate Note Period, if you decide to roll the FRNs into a new Floating Rate Note Period, the interest rate on the FRNs during the new Floating Rate Note Period also may increase as a result of various factors, including general market conditions, changes in law, increases in spreads over the index used to set the interest rate and your credit ratings, if any, or your financial condition. In such a situation, the debt service costs associated with the FRNs will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash. The interest rate on the FRNs may be capped at a maximum interest rate, which generally will range between 9% per annum and 15% per annum. See “Financial Characteristics *– Maturity and Interest*” above.

*Index Risk*. The method of establishing indices used in the municipal market may change over time. A change in the SIFMA Index, LIBOR, SOFR, or such other indices that may exist in the future, may affect the interest rate that you pay on the FRNs. In fact, the regulatory authority that oversees financial services firms and financial markets in the UK announced that, after [insert date], it would no longer persuade or compel contributing banks to make rate submissions for the purposes of determining the LIBOR rate. As a result, it is possible that commencing [insert date], LIBOR may no longer be available or no longer considered or deemed an appropriate reference rate upon which to determine the interest rate on your transaction. See the attached Appendix for a description of the effect of Benchmark Transition Events. The authorizing documents for your FRNs should include an alternate mechanism to determine the interest rate on the FRNs if the applicable index is not or cannot be calculated. [CONSIDER INCLUDING ARRC FALLBACK LANGUAGE IN APPENDIX IF LIBOR USED.]

In addition, there is a risk that, at any point in time, the indices (and therefore the rate of interest that you pay on the FRNs) may be affected by factors that are unrelated to the market for FRNs or for tax-exempt securities generally. For example, SOFR may be subject to volatility and other factors. One such factor is that the pricing and market terms for debt securities indexed to SOFR (such as the spread over SOFR reflected in the interest rate provisions) may evolve over time. Until the SOFR-linked FRN market is more mature with a greater number of issued and traded instruments trading in the secondary market, trading prices may be low or more volatile. You should consider with your counsel and financial advisors what effect specific risks related to SOFR may have on your FRN transaction or the value of any related transactions that reference SOFR, as well as other changes you may want to include in any such transactions in contemplation thereof.

*Refinancing Risk*. If you intend to remarket or refinance the FRNs at the end of a Floating Rate Note Period (whether as new FRNs, VRDOs, fixed rate bonds or other obligations), as a result of changes in market conditions, changes in law or changes in your credit ratings, if any, or your financial condition, you may be unable to remarket or refinance the FRNs at the end of the Floating Rate Note Period or you may pay a higher interest rate during any new Floating Rate Note Period. If the FRNs are structured to include a hard put and you are unable to successfully remarket or refinance the FRNs at the end of the Floating Rate Note Period, you may be obligated to fund the full amount of the purchase price of the tendered FRNs, much sooner than you otherwise may be expecting. If the FRNs are structured with a soft put and you are unable to successfully remarket or refinance the FRNs at the end of the Floating Rate Note Period, you may pay a higher interest rate to the holders of the FRNs, which could be as high as the maximum interest rate and remain at that level until the FRNs are paid in full. See “Financial Characteristics – *Mandatory Tender at End of Floating Rate Note Period*” above.

*Issuer Default Risk*. You may be in default if the funds pledged to secure your FRNs are not enough to pay debt service on the FRNs when due. You also may be in default if the FRNs are subject to a hard put and you are unable to fully fund the purchase price of the FRNs at the end of the Floating Rate Note Period. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the FRNs and the trustee may be able to exercise a range of available remedies against you. For example, if the FRNs are secured by a general obligation pledge, you may be ordered by a court to raise taxes. Other budgetary adjustments also may be necessary to enable you to provide sufficient funds to pay debt service on or, if applicable, purchase price of the FRNs. If the FRNs are revenue bonds, you may be required to take steps to increase the available revenues that are pledged as security for the FRNs. A default may negatively impact your credit ratings. Further, a default may effectively limit your ability to publicly offer bonds or other securities at market interest rate levels. If you are unable to provide sufficient funds to remedy the default, subject to applicable state law and the terms of the authorizing documents, it may be necessary for you to consider available alternatives under state law, including (for some issuers) state-mandated receivership or bankruptcy. A default also may occur if you are unable to comply with covenants or other provisions agreed to in connection with the issuance of the FRNs.

This description is only a summary of issues relating to defaults and is not intended as

legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

*Reinvestment Risk.* You may have proceeds from the issuance of FRNs available to invest prior to the time that you are able to spend those proceeds for the authorized purpose. Depending on market conditions, you may not be able to invest those proceeds at or near the rate of interest that you are paying on the FRNs, which is referred to as “negative arbitrage”.

*Tax Compliance Risk*. The issuance of tax-exempt bonds is subject to several requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on tax-exempt FRNs to become taxable retroactively to the date of issuance of the FRNs, which may result in an increase in the interest rate that you pay on the FRNs or the mandatory redemption of the FRNs. The IRS also may audit you or your FRNs or other bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the FRNs are declared taxable, or if you are subject to audit, you may be unable to remarket or refinance the FRNs at the end of a Floating Rate Note Period or you may pay a higher interest rate during any new Floating Rate Note Period. Further, your ability to issue other tax-exempt bonds also may be limited.

This description of tax compliance risks is not intended as legal advice and you should consult with your bond counsel regarding the tax implications of issuing FRNs.

[The following language sets forth the ARRC’s recommended fallback language for new issuances of LIBOR-referenced U.S. dollar-denominated floating rate notes (FRNs) and may be used in a broad range of floating rate securities issued in the capital markets, including municipal bonds, pass-through securities, convertible debt, and other debt issuances. UPDATE BELOW AS NECESSARY FOR THE LATEST LANGUAGE, which, along with guidance, can be found on the New York Fed’s website, available here: <https://www.newyorkfed.org/arrc/fallbacks-contract-language>.]

**Effect of Benchmark Transition Event**

*(a) Benchmark Replacement*. If the issuer or its designee determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date, the Benchmark Replacement will replace the then current Benchmark for all purposes relating to the Notes in respect of such determination on such date and all determinations on all subsequent dates.

*(b) Benchmark Replacement Conforming Changes*. In connection with the implementation of a Benchmark Replacement, the issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time.

*(c) Decisions and Determinations*. Any determination, decision or election that may be made by the issuer or its designee pursuant to this Section titled “Effect of Benchmark Transition Event,” including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the issuer or its designee’s sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from any other party.

*(d) Certain Defined Terms*. As used in this Section titled “Effect of Benchmark Transition Event”:

***“Benchmark”*** means, initially, LIBOR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR or the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement.

***“Benchmark Replacement”*** means the Interpolated Benchmark; provided that if the issuer or its designee cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then “Benchmark Replacement” means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

1. the sum of: (a) Term SOFR and (b) the Benchmark Replacement Adjustment;
2. the sum of: (a) Compounded SOFR and (b) the Benchmark Replacement Adjustment;
3. the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;
4. the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment;
5. the sum of: (a) the alternate rate of interest that has been selected by the issuer or its designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar denominated floating rate notes at such time and (b) the Benchmark Replacement Adjustment.

***“Benchmark Replacement Adjustment”*** means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

1. the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
2. if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;
3. the spread adjustment (which may be a positive or negative value or zero) that has been selected by the issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar denominated floating rate notes at such time.

***“Benchmark Replacement Conforming Changes”*** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest, [changes to the definition of “Corresponding Tenor” solely when such tenor is longer than the Interest Period][[1]](#footnote-2) and other administrative matters) that the issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the issuer or its designee determines is reasonably necessary).

***“Benchmark Replacement Date”*** means the earliest to occur of the following events with respect to the then-current Benchmark:

1. in the case of clause (1) or (2) of the definition of “Benchmark Transition Event,” the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark; or
2. in the case of clause (3) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

***“Benchmark Transition Event”*** means the occurrence of one or more of the following events with respect to the then-current Benchmark:

1. a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;
2. a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or
3. a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

***“Compounded SOFR”*** means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which will be compounded in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period) being established by the issuer or its designee in accordance with:

1. the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that:
2. if, and to the extent that, the issuer or its designee determines that Compounded SOFR cannot be determined in accordance with clause (1) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the issuer or its designee giving due consideration to any industry-accepted market practice for U.S. dollar denominated floating rate notes at such time.

[Notwithstanding the foregoing, Compounded SOFR will include a [describe lookback and/or suspension period] as a mechanism to determine the interest amount payable prior to the end of each Interest Period.][[2]](#footnote-3)

***“Corresponding Tenor”*** with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

***“Federal Reserve Bank of New York’s Website”*** means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

***“Interpolated Benchmark”*** with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor.

***“ISDA Definitions”*** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

***“ISDA Fallback Adjustment”*** means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

***“ISDA Fallback Rate”*** means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

***“Reference Time”*** with respect to any determination of the Benchmark means (1) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (2) if the Benchmark is not LIBOR, the time determined by the issuer or its designee in accordance with the Benchmark Replacement Conforming Changes.

***“Relevant Governmental Body”*** means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

***“SOFR”*** with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York’s Website.

***“Term SOFR”*** means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

***“Unadjusted Benchmark Replacement”*** means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

1. If the Benchmark’s tenor is longer than the period of time between payment dates (e.g., interest is paid every quarter based on 6-month LIBOR) and the Benchmark falls back to Compounded SOFR, issuers or their designees may wish to include the language in brackets in the definition of “Benchmark Replacement Conforming Changes” in order to retain the ability to adjust the compounding period to match the period of time between payment dates. [↑](#footnote-ref-2)
2. Market participants are encouraged to include the bracketed language to adjust the definition of “Compounded SOFR” to the extent that they would use specific conventions for this rate regardless of any ARRC recommendation (e.g., if issuers and investors for a particular issuance are certain they would fall back to a Compounded SOFR with a two-day “lookback” period, that should be explicitly stated). [↑](#footnote-ref-3)