

# Client Alert

Finance Practice Group

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## **NFMA Issues Proposed Guidelines for Hospital Debt Disclosure**

*Comments Due by December 20, 2012*

The National Federation of Municipal Analysts (NFMA), an organization of over 1,200 members, including research analysts at mutual funds, insurance companies, broker-dealers, commercial banks, rating agencies and other firms, issued on September 20, 2012 its proposed “best practices” for disclosure in hospital debt transactions. This paper is intended as an update to the previous best practices paper issued in 2000 by the NFMA. These best practices are intended as a supplement to the continuing disclosure required under SEC Rule 15c2-12.

Generally, the proposed best practices paper notes that hospital credits “are as volatile as corporate credits,” and the best practices recommended would move hospital disclosure closer to corporate disclosure for entities covered by the 1934 Act. The “best practices” would provide for:

- release of annual audited statements within 120 days of the completion of the fiscal year;
- quarterly unaudited statements (including footnotes) to be released for all four quarters within 45 days of the end of the quarter;
- management’s discussion and analysis accompanying both annual and quarterly statements. The management’s discussion and analysis should provide “meaningful insight” regarding the factors affecting the financial statements, rather than simply reciting the numerical comparisons;
- an annual “no default and covenant compliance certificate;”
- enhanced disclosure regarding debt issues and terms, liquidity, investment allocation and swap positions; and
- operating data to be included with financial statements on a quarterly and annual basis covering such items as patient volumes, licensed and staffed beds, ER visits, outpatient procedures and payor mix.

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While the NFMA cannot regulate the market for hospital debt or establish disclosure standards, its positions impact the market because its members are analysts for many of the “buy side” entities. In addition, the NFMA communicates regularly with the SEC, and its positions can affect the position that the SEC takes in its regulations and rulings.

The best practices paper also includes a number of attached forms which can be used to assemble information required for disclosure, including forms for variable rate debt, cash and liquidity sources, swap transactions and other information.

The proposed best practices states that the NFMA is aware that time and money are limited resources, and that it has limited the requested disclosures to data that it believes is normally monitored on a monthly basis and routinely provided to rating agencies. The paper also suggests that more readily available financial and operating data would relieve the pressure on hospital CFO’s to respond to numerous phone calls requesting financials and discussion of operating results. The paper also suggests that regularly scheduled quarterly investor calls would provide benefits and alleviate the need for “ad hoc” investor calls.

The NFMA is currently taking comments on this revised edition of its “best practices.” The deadline for comments is December 20, 2012

For further information regarding the proposed NFMA “best practices,” or additional information on current disclosure guidelines for these types of issues, please contact one of the names listed above.

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