

BILL ANALYSIS

C.S.H.B. 3282
By: Branch
Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Chapter 1371 of the Government Code relates to the issuance of obligations to fund public improvements, and is the primary authorization for governmental issuers to enter into interest rate swaps and other derivative transactions. C.S.H.B. 3282 amends the Government Code by authorizing the State Securities Board to create standards of conduct for financial advisors engaged in connection with an interest rate management agreement, the execution or delivery of a public security or the investment of the public security proceeds and acting as a fiduciary on behalf of the issuer in structuring and negotiating the terms of these frequently complex arrangements.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the State Securities Board in SECTION 1 and SECTION 2 of this bill.

ANALYSIS

C.S.H.B. 3282 amends Chapter 1371, Government Code by adding Subchapter D. C.S.H.B. 3282 defines interest rate management agreement and public security. C.S.H.B. 3282 exempts an issuer who has more than \$3 billion in outstanding obligations or a nonprofit corporation investing funds on behalf of such an issuer.

C.S.H.B. 3282 outlines the qualifications and requirements for certain financial advisers that are not employed by the issuer or another governmental unit in connection with an interest rate management agreement, the execution or delivery of a public security or the investment of the public security proceeds. In order to be eligible to be retained, the financial adviser must be a dealer or investment adviser registered in accordance with Section 12 or 12-1 of The Securities Act, and have relevant experience providing advice regarding the issuance of public securities, the valuation of interest rate management agreements or the investment of public security proceeds. Also, the financial adviser must acknowledge in writing to the issuer that the financial adviser is acting as the issuer's agent in the context of the transaction and has complied with this Subchapter.

C.S.H.B. 3282 requires the State Securities Board to adopt rules relating to public securities, interest rate management agreements, and investment of bond proceeds applicable to financial advisors and investment advisors under this subchapter. The board shall base the rules on principles stated, as of May 1, 2007, in the Municipal Securities Rulemaking Board's rules G-17, G-19(c), G-20, G-37, and G-38, as those rules may apply to financial advisors and investment advisors. C.S.H.B. 3282 requires, not later than January 1, 2008, the State Securities Board shall adopt the rules required by Section 1371.154, Government Code, as added by this Act. C.S.H.B. 3282 allows Section 1371.153, Government Code, as added by this Act, to take effect January 1, 2008.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007. Section 1371.153, Government Code takes effect on January 1, 2008.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.H.B. 3282 amends the original by deleting the proposed section 1371.0561, Government Code and adds Subchapter D in Chapter 1371, Government Code. C.S.H.B. 3282 defines interest rate management agreement and public security. C.S.H.B. 3282 exempts an issuer who has more than \$3 billion in outstanding obligations or a nonprofit corporation investing funds on behalf of such an issuer. C.S.H.B. 3282 outlines the qualifications and requirements for certain financial advisers that are not employed by the issuer or another governmental unit in connection with an interest rate management agreement, the execution or delivery of a public security or the investment of the public security proceeds. In order to be eligible to be retained, the financial adviser must be a dealer or investment adviser registered in accordance with Section 12 or 12-1 of The Securities Act, and have relevant experience providing advice regarding the issuance of public securities, the valuation of interest rate management agreements or the investment of public security proceeds. Also, the financial adviser must acknowledge in writing to the issuer that the financial advisor is acting as the issuer's agent in the context of the transaction and has complied with this Subchapter. C.S.H.B. 3282 requires the State Securities Board to adopt rules relating to public securities, interest rate management agreements, and investment of bond proceeds applicable to financial advisers and investment advisers under this subchapter. The board shall base the rules on principles stated, as of May 1, 2007, in the Municipal Securities Rulemaking Board's rules G-17, G-19(c), G-20, G-37, and G-38, as those rules may apply to financial advisers and investment advisers. C.S.H.B. 3282 requires, not later than January 1, 2008, the State Securities Board shall adopt the rules required by Section 1371.154, Government Code, as added by this Act. C.S.H.B. 3282 allows Section 1371.153, Government Code, as added by this Act, to take effect January 1, 2008.