**Form of**

**DISCLOSURE STATEMENT**

**OF**

**MUNICIPAL ADVISOR**

[***GENERAL DRAFTING NOTE:*** *This document is intended to be used, in conjunction with the Form of Municipal Advisor Engagement Letter, for a* ***new engagement as municipal advisor on or after June 23, 2016****, when MSRB Rule G-42 becomes effective. It is designed to provide the initial disclosures of legal and disciplinary events under MSRB Rule G-42(b) and (c)(ii)-(iv). During the term of the engagement, this document must be promptly amended or supplemented, and promptly delivered to Client, to reflect any material changes or additions. For a current engagement already in existence prior to June 23, 2016, the separate Form of Disclosure Letter for Existing Municipal Advisor Agreement will typically be more appropriate.*

*Bracketed language in this document, used where more than one option is provided with regard to a particular matter or where language may only be appropriate in certain circumstances, should be reviewed carefully and in conjunction with the applicable Drafting Note herein, and such language should be included or excluded based on the facts and circumstances of the particular engagement. In addition, depending on the particular engagement, additional changes from this model document may be necessary or appropriate.* ***This document, in whole or in part, may not be appropriate for any particular engagement, and each firm seeking to use this document must make an independent evaluation of whether to do so and whether to make modifications to the document.****]*

This Disclosure Statement is provided by **[MUNICIPAL ADVISOR]** (“Municipal Advisor”) to **[MUNICIPAL ENTITY/OBLIGATED PERSON]** (the “Client”) in connection with the Municipal Advisor Engagement Letter dated **[DATE]** (the “Agreement”) and is dated as of the same date as the Agreement. This Disclosure Statement provides information regarding conflicts of interest and legal or disciplinary events of Municipal Advisor required to be disclosed to Client pursuant to MSRB Rule G-42(b) and (c)(ii).

**PART A – Disclosures of Conflicts of Interest**

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable. If no such material conflicts of interest are known to exist based on the exercise of reasonable diligence by the municipal advisor, municipal advisors are required to provide a written statement to that effect.

[***DRAFTING NOTE FOR PART A:*** *Option 1 is appropriate if, based on the exercise of reasonable diligence, Municipal Advisor concludes that it has no known material conflicts of interest. Otherwise, Option 2 should be used, retaining only those items (I)-(XI) listed below as are relevant for the specific engagement, modified as appropriate based on the specific facts and circumstances, and deleting all other items.* ***In particular, each firm must make its own evaluation of which material conflicts of interest may exist, how best to describe such particular conflict and what mitigations the firm has in place to address such conflict.****]*

[**OPTION 1 –** ***Material Conflicts of Interest* –** There are no known material conflicts of interest known to Municipal Advisor in connection with the Scope of Services under this Agreement.][[1]](#footnote-1)

**OR**

**OPTION 2 –** ***Material Conflicts of Interest* –** Municipal Advisor makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under this Agreement, together with explanations of how Municipal Advisor addresses or intends to manage or mitigate each conflict.

***General Mitigations* –** As general mitigations of Municipal Advisor’s conflicts, [USE ONLY FOR MUNICIPAL ENTITY CLIENTS: with respect to all of the conflicts disclosed below, Municipal Advisor mitigates such conflicts through its adherence to its fiduciary duty to Client, which includes a duty of loyalty to Client in performing all municipal advisory activities for Client. This duty of loyalty obligates Municipal Advisor to deal honestly and with the utmost good faith with Client and to act in Client’s best interests without regard to Municipal Advisor’s financial or other interests. In addition,] because Municipal Advisor is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of Municipal Advisor is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitably built on a foundation of integrity, [and] quality of service [and strict adherence to its fiduciary duty]. Furthermore, Municipal Advisor’s municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of Municipal Advisor potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

**[I. Affiliate Conflict.** \_\_\_\_\_\_\_\_\_\_\_\_, an affiliate of Municipal Advisor (the “Affiliate”), has or is expected to provide certain [advice/services/products] to or on behalf of Client that is directly related to Municipal Advisor’s activities within the Scope of Services under this Agreement. In particular, [INSERT BRIEF DESCRIPTION]. The Affiliate’s business with Client could create an incentive for Municipal Advisor to recommend to Client a course of action designed to increase the level of Client’s business activities with the Affiliate or to recommend against a course of action that would reduce or eliminate Client’s business activities with the Affiliate. In addition to the general mitigations described above, this conflict of interest is mitigated [in part by the fact that Client had already engaged the Affiliate prior to engaging Municipal Advisor, and therefore Municipal Advisor did not influence this decision. In addition, in the event that Municipal Advisor makes a recommendation to Client that could influence the level of business with Affiliate, Municipal Advisor will consider alternatives to such recommendation, which will be disclosed to Client along with the impact that the recommendation and its alternatives would have on the business activities of Client with the Affiliate.] [Furthermore, this potential conflict is mitigated by the fact that the Affiliate is subject to its own comprehensive regulatory regime as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ under the applicable [federal securities/banking laws] under which they operate.]

**[II. Payments to Be Retained.** Municipal Advisor has paid \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, a municipal advisor registered under the Securities Exchange Act (the “Solicitor”), to solicit Client to [obtain/retain] Client’s municipal advisory business under this Agreement. Such payment could create an incentive for the Solicitor to make a biased recommendation of Municipal Advisor to Client. In addition to the general mitigations described above, this conflict of interest is mitigated by the disclosure to Client of such payment, in that knowledge of such payment can be considered by Client in determining whether the solicitation by the Solicitor was potentially biased by such payment. Furthermore, this potential conflict is mitigated by the fact that the Solicitor is subject to the comprehensive regulatory regime for municipal advisors under the Securities Exchange Act.]

**[III. Payments From Third Parties for Recommendations.** Municipal Advisor has received a payment from \_\_\_\_\_\_\_\_ (the “Recommended Third-Party”) to recommend the Recommended Third-Party to Client to provide \_\_\_\_\_\_\_ services to Client. Such payment could create an incentive for Municipal Advisor to make a biased recommendation of the Recommended Third-Party to Client. In addition to the general mitigations described above, this conflict of interest is mitigated by the disclosure to Client of such payment, in that knowledge of such payment can be considered by Client in determining whether the recommendation by Municipal Advisor of the Recommended Third-Party was potentially biased by such payment. Furthermore, this potential conflict is mitigated by the fact that such recommendation is subject to the comprehensive regulatory regime for municipal advisors under the Securities Exchange Act.]

**[IV. Fee-Splitting Arrangements.** [[At the direction of Client,] Municipal Advisor has paid a portion of the fee it has received from Client for services under this Agreement to \_\_\_\_\_\_\_\_\_\_\_ (the “Third-Party”) in connection with \_\_\_\_\_\_\_\_\_\_\_\_ services provided by Third-Party to Client]/[Municipal Advisor has received payment from \_\_\_\_\_\_\_\_\_\_\_\_ (the “Third-Party”) in connection with its \_\_\_\_\_\_\_\_\_\_\_\_\_\_ services provided to Client]. Such fee-splitting could result in divided loyalties of Municipal Advisor and the Third-Party. In addition to the general mitigations described above, this conflict of interest is mitigated by [the fact that Client directed the fee-splitting arrangement, thereby obviating the potential for the payment to influence either party’s loyalty. The conflict is further mitigated by] the disclosure to Client of such payment, in that knowledge of such splitting of fees can be considered by Client in determining whether Municipal Advisor or the Third-Party have competing loyalties to others besides Client. In addition, the mitigations described above with respect to Contingent Compensation also generally serve to mitigate this potential conflict of interest.]

**[V. Compensation-Based Conflicts.** [The fees due under this Agreement will be based on the size of the Issue and the payment of such fees shall be contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for Municipal Advisor to recommend unnecessary financings or financings that are disadvantageous to Client, or to advise Client to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.]

**OR**

[The fees due under this Agreement are in a fixed amount established at the outset of the Agreement. The amount is usually based upon an analysis by Client and Municipal Advisor of, among other things, the expected duration and complexity of the transaction and the Scope of Services to be performed by Municipal Advisor. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, Municipal Advisor may suffer a loss. Thus, Municipal Advisor may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.]

**OR**

[The fees due under this Agreement are based on hourly fees of Municipal Advisor’s personnel, with the aggregate amount equaling the number of hours worked by such personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if Client and Municipal Advisor do not agree on a reasonable maximum amount at the outset of the engagement, because Municipal Advisor does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.]

**[VI. Other Municipal Advisor or Underwriting Relationships.** Municipal Advisor serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of Client. For example, Municipal Advisor serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to Client under this Agreement. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, Municipal Advisor could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of Municipal Advisor to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that Municipal Advisor serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair Municipal Advisor’s ability to fulfill its regulatory duties to Client.]

**[VII. Broker-Dealer [and Investment Advisory] Business.** Municipal Advisor is a broker-dealer [and investment advisory firm] that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities [and investment advice in connection with such securities], including securities of Client, may be undertaken on behalf of, or as counterparty to, Client, personnel of Client, and current or potential investors in the securities of Client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of Client, such as when their buying or selling of Client’s securities may have an adverse effect on the market for Client’s securities, and the interests of such other clients could create the incentive for Municipal Advisor to make recommendations to Client that could result in more advantageous pricing for the other clients. Furthermore, Any potential conflict arising from Municipal Advisor effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Municipal Advisor that operate independently from Municipal Advisor’s municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by Municipal Advisor to Client under this Agreement.**]**

**[VIII. Secondary Market Transactions in Client’s Securities.** Municipal Advisor, in connection with its sales and trading activities, may take a principal position in securities, including securities of Client, and therefore Municipal Advisor could have interests in conflict with those of Client with respect to the value of Client’s securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, Municipal Advisor or its affiliates may submit orders for and acquire Client’s securities issued in an Issue under the Agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with Client in that it could create the incentive for Municipal Advisor to make recommendations to Client that could result in more advantageous pricing of Client’s bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Municipal Advisor that operate independently from Municipal Advisor’s municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by Municipal Advisor to Client under this Agreement.]

[**IX. Municipal Advisor Also Advising Conduit Borrower.** In addition to serving as municipal advisor to Client, Municipal Advisor serves as municipal advisor to \_\_\_\_\_\_\_\_\_\_\_\_, which is a conduit borrower with respect to an Issue under this Agreement. Client and the conduit borrower may have conflicting interests with regard to fees, terms of the issuance, and other matters. Such conflict is mitigated by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_].

[**X. Other Conflicts of Interest.** [INSERT ANY MATERIAL CONFLICTS OF INTEREST NOT OTHERWISE COVERED BY ITEMS I-IX ABOVE.]

[**XI. Related Disclosure Relevant to Client**. While we do not believe that the following create(s) a conflict of interest on the part of Municipal Advisor, we note that Municipal Advisor has [made a contribution to a bond referendum campaign or provided in-kind election-related assistance to a bond referendum campaign and the campaign resulted in voter authorization for an Issue under this Agreement] **AND/OR** [made a contribution to a charitable organization at the request of personnel of Client] **AND/OR** [an associated person who serves as, or who has a family member who serves as, an officer, employee or official of Client]. Client may wish to consider any impact such circumstances may have on how it conducts its activities with Municipal Advisor under this Agreement.

**\* \* \* \* \***

**PART B – Disclosures of Information Regarding Legal Events and Disciplinary History**

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client’s evaluation of the municipal advisor or the integrity of the municipal advisor’s management or advisory personnel.

Accordingly, Municipal Advisor sets out below required disclosures and related information in connection with such disclosures.

[***DRAFTING NOTE FOR ITEM I OF PART B:*** *Option 1 is appropriate if Municipal Advisor has no known legal or disciplinary events material to Client’s evaluation of Municipal Advisor or the integrity of its management or advisory personnel. Otherwise, Option 2 should be used.]*

**I. Material Legal or Disciplinary Event.** [**OPTION 1 –** There are no legal or disciplinary events that are material to Client’s evaluation of Municipal Advisor or the integrity of Municipal Advisor’s management or advisory personnel disclosed, or that should be disclosed, on any Form MA or Form MA-I filed with the SEC.]

**OR**

[**OPTION 2 –** Municipal Advisor discloses the following legal or disciplinary events that may be material to Client’s evaluation of Municipal Advisor or the integrity of Municipal Advisor’s management or advisory personnel:

• [IDENTIFY SPECIFIC INSTANCES WHERE LEGAL/DISCIPLINARY EVENT IS MATERIAL – **Example**:[[2]](#footnote-2) A regulatory action disclosure filed on Form MA-I for one of Municipal Advisor’s municipal advisory personnel relating to [a final order of a state securities commission (or any agency or office performing like functions), a state authority that supervises or examines banks, savings associations, or credit unions, a state insurance commission (or any agency or office performing like functions), a federal banking agency, or the National Credit Union Administration, that is based on violations of any laws or regulations that prohibit] fraudulent, manipulative, or deceptive conduct,] the details of which are available in Item [6D(2)(b)] and the accompanying Regulatory Action DRP on Form MA-I available at http://www.sec.gov/\_\_\_\_\_\_\_.]

• [USE THIS PARAGRAPH ONLY IF LEGAL OR DISCIPLINARY DISCLOSURES IN FORM MA OR MA-I HAVE BEEN MADE BY REFERENCE TO DISCLOSURES IN FORM BD, U4 OR ADV – The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by Municipal Advisor in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form ADV, as applicable. If any of the above DRPs provides that a DRP has been filed on Form ADV, BD, or U4 for the applicable event, information provided by Municipal Advisor on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at http://brokercheck.finra.org, and Municipal Advisor’s most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at http://www.adviserinfo.sec.gov. For purposes of accessing such BrokerCheck reports or Form ADV, Municipal Advisor’s CRD number is \_\_\_\_\_\_\_\_\_\_\_.]

**II. How to Access Form MA and Form MA-I Filings.** Municipal Advisor’s most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC’s EDGAR system at http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=\_\_\_\_\_\_\_. The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by Municipal Advisor in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form ADV, as applicable. Information provided by Municipal Advisor on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at http://brokercheck.finra.org, and Municipal Advisor’s most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at http://www.adviserinfo.sec.gov. For purposes of accessing such BrokerCheck reports or Form ADV, Municipal Advisor’s CRD number is \_\_\_\_\_\_\_\_\_\_\_.

[***DRAFTING NOTE FOR ITEM III OF PART B:*** *Option 1 is appropriate if Municipal Advisor has never made any disclosure of a material legal or disciplinary event on Form MA or any Form MA-I. Otherwise, Option 2 should be used.]*

**III. Most Recent Change in Legal or Disciplinary Event Disclosure.** [**OPTION 1 –** Municipal Advisor has not made any material legal or disciplinary event disclosures on Form MA or any Form MA-I filed with the SEC.]

**OR**

[**OPTION 2 –** The date of the last material change to a legal or disciplinary event disclosure on any Form MA or Form MA-I filed by Municipal Advisor with the SEC is [DATE], which change consists of [**Example:**[[3]](#footnote-3) A disclosure relating to one of Municipal Advisor’s municipal advisory personnel with respect to a final order of a state securities commission (or any agency or office performing like functions), a state authority that supervises or examines banks, savings associations, or credit unions, a state insurance commission (or any agency or office performing like functions), a federal banking agency, or the National Credit Union Administration, that is based on violations of any laws or regulations that prohibit] fraudulent, manipulative, or deceptive conduct].]

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**PART C – Future Supplemental Disclosures**

As required by MSRB Rule G-42, this Disclosure Statement may be supplemented or amended, from time to time as needed, to reflect changed circumstances resulting in new conflicts of interest or changes in the conflicts of interest described above, or to provide updated information with regard to any legal or disciplinary events of Municipal Advisor. Municipal Advisor will provide Client with any such supplement or amendment as it becomes available throughout the term of the Agreement.

**Dated: \_\_\_\_\_\_\_\_\_\_\_**

1. *If statement of no material conflicts of interest is used, the remainder of Part A may be omitted.* [↑](#footnote-ref-1)
2. *This example is for illustrative purposes only and does not purport to represent the form in which all or any particular disclosure should be made.* [↑](#footnote-ref-2)
3. *This example is for illustrative purposes only and does not purport to represent the form in which all or any particular disclosure should be made.* [↑](#footnote-ref-3)