MSRB REPORTS

Volume 13, Number 1 | Municipal Securities Rulemaking Board | January 1993

In This Issue

Also in This Issue

From the Chairman

"Somewhere on this globe, every ten seconds, there is a woman giving birth to a child. She must be found and stopped."

I share Sam Levenson's wit with you because it so eloquently addresses the folly in reliance on simplistic solutions to complex problems without any thorough investigation of those problems.

Before drafting this message, I re-read those of my predecessors that filled this space in recent years. I was struck by their wisdom, foresight and the accomplishments of the Boards they represented. I was even more moved, however, by the clarion call made by each for greater industry participation in the business of the MSRB. Regrettably, except for the loyal few I take this opportunity to thank, the call continues to go unheeded. I renew it.

If the Board is to keep pace with the accelerating rate of change, the increasing demand for liquidity and universally available information, we need your input. If we are to have more relevant rules, not just more rules, we need your input. If we are to maintain professional qualifications at levels consistent with the standards necessary to protect the investor, we need your input. If we are to effectively deny participation in the municipal securities industry to those that have shown disregard for its rules and have diminished the contributions of those who have toiled relentlessly for the highest standards of ethics, we need your input!

The Board also needs a competent, dedicated staff. I am happy to say, we have it. The MSRB staff is skillfully managed, effective and efficient. They are well equipped for the challenges ahead and have earned our respect and gratitude for their performance to date.

The Board is committed to accomplishing its mission in the coming year. We will continue our efforts to make the MSRB rules (that book, to paraphrase Ambrose Bierce, whose covers are too far apart) more pertinent and accessible. As with the MSIL™ system,* we will seek new tools to replace old ones that are not up to the demands of tomorrow. We have planned an ambitious schedule of dealer meetings around the country to talk face-to-face with you about your concerns and the issues that we must address. We will continue to work with the Securities and Exchange Commission, the examining authorities and other self-regulatory organizations to achieve greater understanding and a common front with which to attack the problems unique to the municipal bond market. This Board is resolved that the best solutions eliminate causes, not just symptoms, and that those solutions are constructed and implemented in a manner that does not place debilitating burdens on those who are not part of the problem.

Please join us in these efforts. Become an active participant in the process. You who work in this market day in and day out are far better equipped to identify the true problems and solutions than outsiders. If you choose not to become involved, to remain silent, "Somewhere on this globe, every ten seconds . . ." others less qualified will find it easier to press their version of solutions. Those "solutions" will be made without your input and you will have to live with the results just the same.

Sincerely,

Charles W. Fish
Chairman 1992-1993

* Municipal Securities Information Library and MSIL are trademarks of the Board.

MSRB REPORTS (SSN-0277-0911) is published by the Municipal Securities Rulemaking Board, 1818 N Street, NW, Suite 800, Washington, DC 20036-2491. Editor: Ronald W. Smith
POSTMASTER send address changes to MSRB, 1818 N Street, NW, Suite 800, Washington, DC 20036-2491. Telephone (202) 223-9347 Fax (202) 872-0347

Staff Contacts at MSRB

The following persons may be contacted at the MSRB's offices at 1818 N Street NW, Suite 800, Washington, DC 20036-2491, telephone (202) 223-9347, to answer questions pertaining to the subjects listed below:

The Board/Press Releases
Christopher A. Taylor, Executive Director

MSRB Rules/Dealer Practices/Legal
Diane G. Klinke, General Counsel
Harold L. Johnson, Deputy General Counsel
Mark McNair, Assistant General Counsel
Jill C. Finder, Assistant General Counsel
Ronald W. Smith, Legal Associate
Judith A. Somerville, Uniform Practice Specialist

The following persons may be contacted at the MSRB's offices at 1640 King Street, Suite 300, Alexandria, VA 22314, telephone (202) 223-9503, to answer questions pertaining to the subjects listed below:

Municipal Securities Information Library System (CDI Pilot subsytem and OS/ARD subsytem) — public access fa[illegible] delivery of official statements to the Board
Thomas A. Hutton, Director of MSIL
Lydia Hodgson, Supervisor
Mary McQuilliams, Supervisor

Arbitration — procedures, case management
James McCabe, Director of Arbitration
Denise P. Person, Arbitration Administrator

Professional Qualifications — representative and principal examinations
Loretta J. Rollins, Professional Qualifications Administrator

Fees — underwriting assessment fee, annual fee
Gloria H. Bunting, Comptroller
Melanie Sargent, Assistant to the Comptroller

Publications — orders
John L. Green, Office Assistant

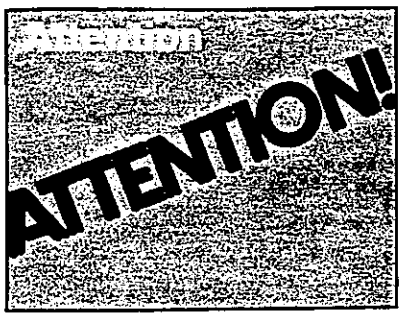
Calendar

January 4	—	Effective date of amendment to rule G-12(f), on automated comparison and book-entry settlement of inter-dealer transactions
January 21	—	CDI Pilot system began operation
March 19	—	Cutoff date for submitting recommendations for Board nominations
Pending	—	Amendment to rule G-36, on delivery of official statements to the Board

Volume 13, Number 1

MSRB REPORTS

January 1993



Route to:

- ☒ Manager, Muni Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☐ Operations
- ☐ Public Finance
- ☐ Compliance
- ☐ Training
- ☐ Other

Continuing Disclosure Information Pilot Begins Operation

Notice

The Board's Continuing Disclosure Information Pilot subsystem of the MSIL system began operation on January 21, 1993.

The Board's CDI Pilot, a subsystem of the Municipal Securities Information Library™ (MSIL™) system, began operation on January 21, 1993. The CDI Pilot is designed to accept time-sensitive continuing disclosure information (CDI) that affects municipal securities in the secondary market and to disseminate that information.* The CDI Pilot system initially will be open only to trustees. The Board plans to expand the CDI Pilot system to issuers as well. Submission of CDI by trustees to the CDI Pilot is voluntary. In addition, there is no charge to those who do so.

Background

CDI (no longer than three 8 1/2 x 11-inch pages) may be submitted to the Pilot system by computer modem, facsimile transmission, or on paper. Submissions must be accompanied by a completed two page CDI Cover Sheet. Modem submissions will have the highest priority for processing and dissemination, facsimile the next highest, and paper the lowest. MSIL system staff will make every effort to process and disseminate all submissions the day they are received.

The CDI Pilot system will accept submissions from 9:00 a.m. to 4:00 p.m. on days that the securities markets are open. It is designed to process up to 100 submissions a day and, initially, to broadcast them simultaneously to up to 20 subscribers, including the Board's Public Access Facility. CDI provided to the Pilot by modem are disseminated by modem. CDI provided by facsimile or on paper are disseminated by facsimile. The CDI Pilot has been approved for operation by the Securities and Exchange Commission through October 6, 1993. The Board anticipates that it will seek an extension of the Pilot at least through July 1994.

Enrolling in the CDI Pilot System

Prior to submitting documents to the CDI Pilot, a potential submitter first must enroll in the system by sending a signed copy of the CDI Pilot system enrollment form. Descriptive information on the CDI Pilot along with an enrollment form and a CDI Cover Sheet are available to trustees interested in enrolling. Please contact the Board if you wish to receive this information.

Once a submitter has enrolled in the CDI Pilot system, MSIL system staff will send it a letter containing the submitter's identification number and personal identification number. These numbers must be used by submitters to ensure that authorized persons are providing CDI to the Pilot. They are confidential and should not be shared with anyone except those who are authorized to submit documents.

Subscribing to the CDI Pilot System

Anyone may subscribe to the CDI Pilot system. A subscription costs $16,000 per year plus telephone charges attributable to facsimile and modem transmissions to the subscriber.

January 21, 1993

Questions about this notice may be directed to Thomas A. Hutton, Director of MSIL.

* For a complete discussion of the CDI Pilot system, *see MSRB Reports* Vol. 12, No. 1 (April 1992) at 3 - 5.

Volume 13, Number 1

MSRB REPORTS

January 1993

Notice of Approval

Route to:

- ☒ Manager, Muni Dept.
- ☐ Underwriting
- ☒ Trading
- ☒ Sales
- ☒ Operations
- ☐ Public Finance
- ☐ Compliance
- ☐ Training
- ☐ Other

Automated Comparison and Book-Entry Settlement of Inter-Dealer Transactions: Rule G-12

Amendment Approved

The amendment requires all inter-dealer transactions in depository-eligible securities to be settled with book-entry delivery.

On December 23, 1992, the Securities and Exchange Commission approved an amendment to rule G-12(f), on automated comparison and book-entry settlement of inter-dealer transactions.[1] The amendment requires all inter-dealer transactions in depository-eligible securities to be settled by book-entry delivery. The amendment became effective on January 4, 1993.

Summary of Amendment

The first phase of the Board's plan for expanding the use of automated clearance and settlement systems in the municipal securities market is the amendment to rule G-12(f)(ii) to require all inter-dealer transactions in depository-eligible securities to be settled with book-entry delivery.[2] Currently, rule G-12(f)(ii) requires an inter-dealer transaction to be settled by book-entry delivery under the following conditions:

(1) the transaction has been compared in the automated comparison system;

(2) each party to the transaction is a member of a securities depository registered with the SEC ("depository") or its clearing agent for the transaction is a member; and,

(3) the securities are eligible for deposit at a depository of which both parties are members, or, if the parties are members of different depositories, the securities are eligible at each of the two depositories.

Under the amendment , a dealer is required to make book-entry settlement of all of its inter-dealer transactions in municipal securities, except for certain transactions involving securities that are not depository-eligible.[3] The primary effect of this change is to eliminate the current exemption in the rule for transactions involving dealers that are not direct members of a securities depository.

The amendment does not require dealers to apply to make municipal securities depository eligible.[4] However, it should be noted that there are programs now underway at depositories to make bearer municipal securities automatically eligible, based on the trade data submitted to automated comparison and automated confirmation/affirmation systems. To the extent that these programs result in a security being made

Questions about the amendment may be directed to Harold L. Johnson, Deputy General Counsel, or Judith A. Somerville, Uniform Practice Specialist.

[1] SEC Release No. 34-31645.

[2] For a complete discussion of the Board's plan, *see MSRB Reports* Vol. 12, No. 1 (April 1992) at 31 - 36.

[3] If the parties to a transaction are members of different depositories, then they must arrange to use the interface between the depositories to accomplish a book-entry delivery. However, if the securities involved in a transaction are ineligible at the exclusive depository (or depositories) being used by one of the parties to the transaction, a book-entry delivery may not be possible. Thus, the amendment does not require book-entry settlement in this case. The Board believes that the number of issues that fit within this exception is relatively small, but that the exception is necessary to ensure that the amendment is not construed as requiring all dealers to have access to all depositories in order to comply with the proposed rule change.

[4] Thus, the amendment does not require an underwriter to accomplish the initial inter-dealer distribution of the issue through a depository unless the underwriter chooses to do so by making the issue eligible at a depository prior to the distribution. Once an issue is made eligible at a depository, however, all subsequent transactions would be subject to the requirement of book-entry delivery according to the provisions discussed above.

pository-eligible between trade date and settlement date, e amendment requires book-entry settlement of those trans- tions.

anuary 4, 1993

Text of Amendment*

Rule G-12. Uniform Practice

(a) through (e) No change.

(f) *Use of Automated Comparison, Clearance, and Settlement Systems.*

(i) No change.

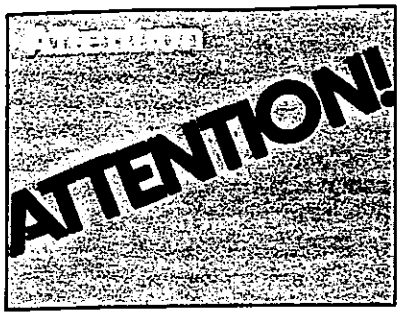
(ii) Notwithstanding the provisions of section (e) of this rule, ~~if a transaction submitted to one or more registered clearing agencies for comparison in accordance with paragraph (i) above has been compared successfully, and if such transaction involves municipal securities which are eligible for deposit at one or more securities depositories registered with the Securities and Exchange Commission in which both parties to the transaction are members, the parties to such transaction shall settle the transaction by book-entry through the facilities of the depository or through the interface or link, if any, between the depositories.~~ a transaction eligible for book-entry settlement at a securities depository registered with the Securities and Exchange Commission (depository) shall be settled by book-entry through the facilities of a depository or through the interface between two depositories. Each party to such a transaction shall submit or cause to be submitted to a depository all information and instructions required from the party by the depository for book-entry settlement of the transaction to occur; *provided that*, if a party to a transaction has made arrangements, through its clearing agent or otherwise, to use one or more depositories exclusively, a transaction by that party shall not be subject to the requirements of this paragraph (ii) if the transaction is ineligible for book-entry settlement at all such depositories with which such arrangements have been made.

(iii) For purposes of paragraph (i) of this section (f) a municipal securities broker or municipal securities dealer who clears a transaction through an agent who is a member of a registered clearing agency ~~or a registered securities depository~~ shall be deemed to be a member of such registered clearing agency ~~or registered securities depository~~ with respect to such transaction.

(g) through (l) No change.

* Underlining indicates new language; strikethrough denotes deletions.

MSRB REPORTS
Volume 13, Number 1 January 1993



Route to:

- ☒ Manager, Muni Dept.
- ☐ Underwriting
- ☒ Trading
- ☒ Sales
- ☒ Operations
- ☐ Public Finance
- ☐ Compliance
- ☐ Training
- ☐ Other

Open Inter-Dealer Transactions: Rule G-12

Summary of Comments

In the April 1992 issue of *MSRB Reports*, the Board requested comments on the nature and extent of any problems associated with open inter-dealer transactions. Based on the comments received and the Board's review of this matter, the Board has determined that no rulemaking is warranted at this time.

Overview of Board Rule G-12(h)

Rule G-12(h) provides a procedure to be used by dealers in closing out open inter-dealer transactions. The rule allows the purchasing dealer to issue a notice of close-out to the selling dealer on any business day from five to 90 business days after the scheduled settlement date. This time limitation is known as "the 90-day rule." If the selling dealer does not deliver the securities owed on the transaction within 10 business days after receipt of the close-out notice (15 business days for retransmitted notices), then the purchasing dealer may execute a close-out procedure using one of three options: (i) buy identical securities in the market for the account and liability of the seller (a "buy-in"); (ii) agree with the selling dealer to accept substitute securities (a "substitution"); or (iii) require the selling dealer to repurchase the securities (a "mandatory repurchase"). The selling dealer, which is failing to deliver, bears the risk of any increase in the market value of the securities.

The purchasing dealer is not required to initiate a close-out, or to execute a close-out notice that it has initiated. The selling dealer does not have a right to force a close-out of the transaction. However, if the purchasing dealer chooses not to initiate a close-out within 90 business days of the settlement date (and ultimately execute it), then the purchasing dealer loses its right to use the Board's close-out rules to resolve the open transaction.

Background

The Board adopted the 90-day time limit for close-outs to encourage dealers to promptly resolve open transactions within this time frame. The Board provided the close-out options of substitution and mandatory repurchase because municipal securities issues often are not available for a buy-in within a reasonable period of time. Both the Board and the SEC have been concerned about the prompt resolution of open transactions because of the risks associated with long-term open transactions. The SEC has, in the past, expressed concern over the amount of time Board rules allow for closing out open transactions, and has urged the Board to shorten such periods to facilitate the prompt resolution of open transactions.

Over the years, dealers have discussed with the Board problems experienced in closing out open inter-dealer transactions, and have suggested various modifications to the Board's close-out rules to remedy such problems. More recently, the Regional Municipal Operations Association ("RMOA")[1] proposed that the Board eliminate its 90-day rule and provide for mandatory acceptance of partial deliveries of securities for dealers who issue close-out notices. In addition, the Municipal Operations and Compliance Committee of the Public Securities Association ("PSA") established a subcommittee on close-outs which has been discussing problems associated with resolving open inter-dealer transactions.

In view of industry comments and suggestions that there may be difficulty in resolving open transactions within the 90-day limit, the Board published an April 1992 notice requesting comments on the nature and extent of problems associated with open inter-dealer transactions, suggesting possible solutions, and generally requesting comment on how open transactions could be resolved more quickly.[2] The Board received eight comment letters in response thereto.[3]

Summary of Comments and Discussion

Most of the commentators believe that open inter-dealer transactions are neither widespread nor problematic. In

Questions about this notice may be directed to Jill C. Finder, Assistant General Counsel, or Judith A. Somerville, Uniform Practice Specialist.

[1] The RMOA is an industry trade group consisting of 27 firms located in eight states, and is organized to enhance industry efforts toward more efficient comparison and settlement of municipal securities in both the primary and secondary markets.

[2] *MSRB Reports*, Vol. 12, No. 1 at 37 - 38 (April 1992).

[3] In addition to the RMOA's proposal, the Board received comments from two other industry organizations — the Municipal Operations and Compliance Committee of the PSA and the Securities Operations Division ("SOD") of the Securities Industry Association.

addition, there was no consensus reached concerning a suitable incentive to encourage dealers to resolve open transactions quickly.

General Observations

The PSA believes that the percentage of open inter-dealer transactions is "quite small" compared to overall transaction volume, and that such transactions are concentrated among only a few firms.[4] PSA also believes that internal errors are the primary cause of a selling dealer's failure to deliver securities owed, and that such transactions remain open because the securities are not available in the market. Another commentator also believes that some open transactions are due to internal errors, as well as to partial calls. PSA notes that another factor leading to open transactions is the use of NSCC's automated customer account transfer service ("ACATS"). The Board understands that this might occur if a customer account is transferred and the customer's securities are not held by the carrying dealer. This would create a fail-to-receive on the receiving dealer's books, thereby increasing the total number of industry fails. Two other commentators also believe that ACATS contributes to the overall number of open transactions.

One commentator notes that its open transactions are resolved if action is taken within 30 days of settlement date. After that time, changes in market value and availability of securities create problems in resolving such transactions. Two other commentators report that less than 1% of their open transactions remain open over 90 days. Another commentator does not believe that open inter-dealer transactions pose any real problem and notes that it has not experienced a significant number of fails. This commentator believes that the Board's close-out procedures work reasonably well.

The 90-Day Rule

As noted above, the Board adopted the 90-day time limit for close-outs to encourage dealers to resolve open transactions promptly within this time frame. Of the eight commentators that responded to the notice, two believe that the 90-day rule should be eliminated; one believes that it should be shortened to 30 days; and five suggested alternatives to the rule.

Two commentators believe that the 90-day rule should be eliminated because it is a barrier to resolving open transactions. These commentators argue that securities sometimes appear in the market after the 90-day period, but that the purchasing dealer cannot avail itself of the Board's close-out rules. One commentator suggests that the Board should require dealers to **attempt** to execute a close-out at specific intervals during the 90-day period, and should review with the SEC the possibility of more stringent net capital charges for non-complying dealers. This commentator further suggests that if a dealer has attempted to execute a close-out within the 90-day period, then the Board should allow such dealers to use the Board's close-out rules at any time after the expiration of the 90-day rule.

One commentator suggests that the Board either eliminate the 90-day rule or approve a rule that would specify that the settlement date of a failed transaction is the date set by the NSCC RECAPS program.[5] The SOD believes that the 90-day rule needs to be clarified and possibly expanded, but not necessarily eliminated. SOD suggests that the Board reinterpret the 90-day rule to provide that:

> If the purchasing dealer **does initiate** a close-out and **does attempt** to execute an order to buy-in identical securities in the market place, but cannot for reasons of market availability, etc., then **the 90 Day Rule does not apply** and the purchasing dealer can continue to execute a close-out using one of the three options as outlined in MSRB Rule G-12(h) without being required to obtain an agreement from the selling dealer. Only when the purchasing dealer does not initiate a close-out or attempt market action should the 90 Day Rule apply.

PSA offers several alternatives for Board consideration, including the following:

1. Eliminate the 90-day limit if the purchasing dealer has issued a close-out notice within that period.
2. Mandate a close-out within 30 days.
3. Mandate a close-out within 120 days.
4. Do not amend the rule, since the scope of the problem is small and incentives already exist for dealers to resolve their open transactions.

The Board is aware that specific issues of municipal securities are not always available in the market and, therefore, a buy-in may not be possible within 90 days of a failed settlement. In some situations, the securities are unlikely to ever appear in the market. In such a case, the purchasing dealer may always execute a mandatory repurchase within the 90-day period to resolve the open inter-dealer transaction. However, if the purchasing dealer has an offsetting transaction with a customer, it must also resolve that obligation. The 90-day rule is intended as an incentive for dealers to promptly resolve such open transactions, but does not currently mandate such action. While the Board might consider mandating close-outs in the future if open transactions become problematic, it does not believe that such an approach is advisable at this time, since this would remove the flexibility that may be necessary in certain situations. At the same time, the Board does not believe that it would be appropriate to eliminate or lengthen the 90-day rule without providing some other suitable incentive for dealers to resolve open transactions quickly. There was no consensus reached among the commentators concerning such an incentive.

Notifying Customers

A purchasing dealer's decision to close out a transaction often is affected by that dealer's offsetting delivery obligations to a customer. When securities are not available in the market and are unlikely to become available, the dealer is unable to

[4] PSA bases its belief on NSCC's RECAPS data. In NSCC's RECAPS program, dealers acknowledge or "reconfirm" their open transactions through NSCC on a quarterly basis, mark the transactions to the market, and receive new settlement dates for purposes of the SEC's net capital rules. This reduces the dealer's net capital deductions for "aged" failed transactions, but does not resolve the open transaction. "Repeat" RECAPS are those fails previously submitted to RECAPS, all of which are over 90 days old.

[5] *See* note 4, above.

execute a buy-in. While a mandatory repurchase would eliminate the fail-to-receive from the purchasing dealer's books, it does not resolve the dealer's obligations to its customer. **In such a situation, it is not appropriate for a purchasing dealer, under the guise of waiting for a buy-in opportunity to appear, simply to allow a transaction to remain open indefinitely or until maturity of the security. The Board believes it is critical for dealers in these cases to contact their customers and attempt to resolve the problem with a proposed substitution or repurchase by the dealer.**

In its April Request for Comments, the Board asked whether, as a means of resolving open transactions quickly, dealers should be required to notify their customers if securities have not been reduced to possession or control after a certain number of days. However, there was no consensus among the commentators that customer notification would be an effective incentive for resolving such open transactions or a suitable alternative to the 90-day rule. Of the six commentators that addressed this issue, two support the concept and four are opposed. One commentator believes that the Board should require dealers to notify customers if the dealer has not gained control of the securities within 30 business days of settlement. On the other hand, SOD and another commentator state that such a requirement is not necessary since dealers already notify customers through efforts to resolve open transactions. The Board has determined not to pursue such a requirement, at this time.

Seller-Initiated Close-Outs

The problems associated with open transactions often involve situations in which a selling dealer, which owes securities to a purchasing dealer, recognizes that it will not be able to complete the transaction and wants to close it out and settle its potential liability as quickly as possible. If the purchasing dealer chooses not to close out the transaction within the 90-day period, then the selling dealer will continue to be subject to market risk until the transaction is resolved, either by agreement of the parties or through arbitration.

In 1982, the Board considered adopting a provision to allow a selling dealer to close-out an open transaction on which it is failing to deliver. The Board declined to adopt such a provision because it would, in effect, allow a selling dealer to protect itself from market risks while unfairly shifting these risks to the purchasing dealer. In 1986, the Board published a notice requesting comments on open inter-dealer transactions. None of the commentators supported the creation of a seller's close-out. Similarly, none of the commentators responding to the Board's April 1992 notice supported the creation of a seller-initiated close-out procedure. Of the five commentators that addressed this issue, all five oppose such a provision. These commentators believe that the selling dealer, as the cause of the problem, should bear the responsibility and burden of obtaining and delivering the securities.[6] The Board has determined not to pursue this alternative.

Partial Deliveries of Securities

Rule G-12(e)(iv) states that a purchasing dealer shall not be required to accept a partial delivery of securities.[7] Rule G-15, on customer transactions, has a similar provision. In its proposal to the Board, the RMOA suggested that the total volume of failed transactions might be reduced if a dealer that initiates a close-out is required to accept a partial delivery of securities. The RMOA further stated that partial deliveries would help dealers fulfill certain obligations, such as reducing fully paid customer securities to possession or control, pursuant to SEC Rule 15c3-3(d).[8] The RMOA also stated that mandatory acceptance of partial deliveries would not hurt dealers since only a dealer initiating a close-out would bear the risk of having to accept a partial delivery and then being unable to redeliver the securities if its customer refused such a delivery.

In its April 1992 notice, the Board requested comments on whether, as a means of resolving at least part of an open transaction, it should require that dealers accept partial deliveries of securities if such dealers have initiated close-out procedures. Four commentators oppose the concept, stating that customers can refuse to accept such deliveries, which then forces the dealer to finance open positions. One of these commentators notes that this problem can be especially acute for dealers with large retail customer bases. Three commentators support mandatory acceptance of partial deliveries as a means of bringing an open transaction closer to resolution. And the SOD suggests that the issue requires further study. Accordingly, the Board does not believe it is appropriate to adopt such a provision at this time.

Conclusion

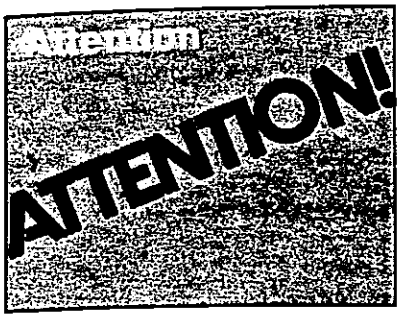
The Board appreciates the commentators' efforts in responding to the April Request for Comments. However, there was little indication that open inter-dealer transactions are widespread or problematic in the municipal securities industry. Thus, the Board is not persuaded that any rulemaking is warranted. The Board will continue to monitor this matter and, if necessary, initiate rulemaking in the future, as well as discuss this matter with the SEC.

October 28, 1992

[6] In such situations, the parties should attempt to work out the matter. Of course, arbitration is available to either party if they cannot settle the matter on their own.

[7] In 1983, the Board requested comments on a proposed amendment that would have provided for the mandatory acceptance of partial deliveries. A substantial majority of commentators opposed such a provision, because it would increase dealer's interest costs, impose a serious burden on smaller dealers who sold securities to individual investors and small institutions (since these dealers would be unable to redeliver the securities), and would eliminate incentives for resolving open transactions. The commentators further noted that, unlike the corporate securities market, it is impossible to minimize the burdens imposed by such a provision through borrowing or buying replacement securities. Based on these comments, the Board determined that mandatory acceptance of partial deliveries would force dealers to incur additional expenses to finance these open positions, and that such a burden was inappropriate and unnecessary.

[8] SEC Rule 15c3-3(d) requires that if a broker or dealer has fully-paid securities on its books or records which are listed as failed to receive for more than 30 calendar days, then the broker or dealer must take prompt steps to obtain possession or control of such securities.



Route to:

- ☒ Manager, Muni Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☐ Operations
- ☐ Public Finance
- ☐ Compliance
- ☐ Training
- ☐ Other

Recommendations Requested for Board Nominations

The 1993 Nominating Committee requests recommendations of persons to be considered for five Board positions opening on October 1, 1993.

Membership Requirements

The Board, established by Congress in 1975 to act as the primary rulemaking body for the municipal securities industry, consists of 15 members—five representatives of bank dealers, five representatives of securities firms and five public members. One public member must represent issuers and one investors. Public members may not be associated with a securities firm or bank dealer other than by reason of being under common control with, or directly controlling, any broker or dealer which is not a municipal securities broker or municipal securities dealer.

When making recommendations, keep these Board membership requirements in mind:

- Two public representatives, two securities firm representatives and one bank dealer representative must be elected this year to ensure equal representation in each category;
- Municipal securities brokers and municipal securities dealers of diverse size and type must be represented; and
- Wide geographic representation must be maintained.

Procedure for Recommending Candidates

1. Complete the form printed on page 13 or a photocopy of that form. (Additional forms may be obtained from the Board's offices.) The following information must be included on the form:
   - The name, business affiliation, business address and telephone number, home address and telephone number and category (bank dealer, securities firm or public representative) of the individual recommended. (Item 1)
   - The educational and professional background of the individual recommended. (Item 2)
   - The proposer's name, business address, telephone number and professional relationship (if any) to the individual recommended. (Item 3)
   - The affiliation (if any) of the individual with any broker, dealer or municipal securities dealer. (Item 4)
2. Determine in advance that the individual recommended is willing to serve on the Board.
3. Submit recommendations no later than March 19, 1993 to:

John C. Merritt
Chair, Nominating Committee
Municipal Securities Rulemaking Board
1818 N Street, NW Suite 800
Washington, DC 20036-2491

Terms of Present Board Members

Terms Expire September 30, 1993

Peter T. Clarke, Managing Director
J.P. Morgan Securities, Inc.
New York, New York

Charles W. Fish, Chairman
Fish & Lederer Investment Counsel, Inc.
Orange, California

Katharine C. Lyall, President
University of Wisconsin System
Madison, Wisconsin

John C. Merritt, Chairman and Chief Executive Officer
Van Kampen Merritt Inc.
Philadelphia, Pennsylvania

R. Fenn Putman, Managing Director
Lehman Brothers
New York, New York

Terms Expire September 30, 1994

Edwin B. Horner, III, First Vice President, Manager
Scott & Stringfellow Investment Corp.
Lynchburg, Virginia

Robert B. Inzer, City Treasurer - Clerk
City of Tallahassee
Tallahassee, Florida

Gregory C. Menne, Director - Fixed Income Management
A.G. Edwards & Sons, Inc.
St. Louis, Missouri

Ruth E. Smith, Senior Vice President, Capital Markets Department
Texas Commerce Bank National Association
Houston, Texas

M. Rex Teaney, President
Franklin Street Trust Company
Chapel Hill, North Carolina

Terms Expire September 30, 1995

David C. Clapp, Partner
Goldman, Sachs & Co.
New York, New York

Robert H. Drysdale, President and Chief Executive Officer
PNC Securities Corp.
Pittsburgh, Pennsylvania

Frederick W. Gaertner, Vice President
The Chubb Corporation
Warren, New Jersey

Walter K. Knorr, City Comptroller
City of Chicago
Chicago, Illinois

Phillip E. Peters, Chief Investment Officer
Boatmen's Bancshares, Inc.
St. Louis, Missouri

Recommendation Form

1. Individual Recommended: _____

Business Address: _____ Home Address: _____

_____ _____

_____ _____

Telephone Number: _____ Telephone Number: _____

Category: ☐ Bank Dealer Representative ☐ Securities Firm Representative ☐ Public Member

2. Educational and Professional Background

Professional: _____

_____

_____

Educational: _____

_____

_____

Associations: _____

_____

_____

3. Proposer: _____

_____

_____

4. Associated Person under Securities Exchange Act of 1934: _____

_____

_____

Publications List

Manuals and Rule Texts

MSRB Manual
Soft-cover edition containing the text of MSRB rules, interpretive notices and letters, samples of forms, texts of the Securities Exchange Act of 1934 and of the Securities Investor Protection Act of 1970, as amended, and other applicable rules and regulations affecting the industry. Reprinted semi-annually.
October 1, 1992 ..... $5.00

Glossary of Municipal Securities Terms
Glossary of terms (adapted from the State of Florida's *Glossary of Municipal Bond Terms*) defined according to use in the municipal securities industry.
1985 ..... $1.50

Instructions for Filing Forms G-36
This publication is available to assist underwriters in submitting official statements, advance refunding documents and complete and correct Forms G-36.
1992 ..... no charge

Professional Qualification Handbook
A guide to the requirements for qualification as a municipal securities representative, principal, sales principal and financial and operations principal, with questions and answers on each category. Includes sections on examination procedures, waivers, disqualification and lapse of qualification, the text of MSRB qualification rules and a glossary of terms.
1990 ..... 5 copies per order ..... no charge
Each additional copy $1.50

Manual on Close-Out Procedures
A discussion of the close-out procedures of rule G-12(h)(i) in a question and answer format. Includes the text of rule G-12(h)(i) with each sentence indexed to particular questions, and a glossary of terms.
January 1, 1985 ..... $3.00

Arbitration Information and Rules
Based on SICA's *Arbitration Procedures* and edited to conform to the Board's arbitration rules, this pamphlet includes the text of rules G-35 and A-16, a glossary of terms and list of other sponsoring organizations.
1991 ..... no charge

Instructions for Beginning an Arbitration
Step-by-step instructions and forms necessary for filing an arbitration claim.
1991 ..... no charge

The MSRB Arbitrator's Manual
The Board's guide for arbitrators. Based on SICA's *The Arbitrator's Manual*, it has been edited to conform to the Board's arbitration rules. It also contains relevant portions of the *Code of Ethics for Arbitrators in Commercial Disputes*.
1991 ..... $1.00

Reporter and Newsletter

MSRB Reports
The MSRB's reporter and newsletter to the municipal securities industry. Includes notices of rule amendments filed with and/or approved by the SEC, notices of interpretations of MSRB rules, requests for comments from the industry and the public and news items.
Quarterly ..... no charge

Examination Study Outlines

A series of guides outlining subject matter areas a candidate seeking professional qualification is expected to know. Each outline includes a list of reference materials and sample questions.

Study Outline: Municipal Securities Representative Qualification Examination
Outline for Test Series 52
July 1992 ..... no charge

Study Outline: Municipal Securities Principal Qualification Examination
Outline for Test Series 53
July 1990 ..... no charge

Brochure

MSRB Information for Municipal Securities Investors
Investor brochure describing Board rulemaking authority, the rules protecting the investor, arbitration and communication with the industry and investors. Use of this brochure satisfies the requirements of rule G-10.
1 to 500 copies ..... no charge
Over 500 copies ..... $.01 per copy

Publications Order Form

Description	Price	Quantity	Amount Due
MSRB Manual (soft-cover edition)	$5.00		
Glossary of Municipal Securities Terms	$1.50		
Professional Qualification Handbook	5 copies per order no charge Each additional copy $1.50		
Manual on Close-Out Procedures	$3.00		
Instructions for Filing Forms G-36	no charge		
Arbitration Information and Rules	no charge		
Instructions for Beginning an Arbitration	no charge		
The MSRB Arbitrator's Manual	$1.00		
Study Outline: Municipal Securities Representative Qualification Examination	no charge		
Study Outline: Municipal Securities Principal Qualification Examination	no charge		
MSRB Information for Municipal Securities Investors (Investor Brochure)	1 to 500 copies no charge Over 500 copies $.01 per copy		
		Subtotal	
		D.C. residents add 6% sales tax; Virginia residents add 4.5% sales tax	
		Total amount due	

☐ Check here if you currently do not have a subscription, but want to receive *MSRB Reports*.

☐ Check here if you want to have *MSRB Reports* sent to additional recipients. (Please list names and addresses of any additional recipients on a separate sheet of paper.)

Requested by: _____ Telephone: ( ) _____ Date: _____

Ship to: _____

Attention: _____

Address: _____
(Street address preferred)

_____

All orders for publications that are priced **must** be submitted by mail along with payment for the full amount due. Requests for priced publications will not be honored until payment is received. Make checks payable to the "Municipal Securities Rulemaking Board" or "MSRB."

Orders should be addressed to the Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA, 22314, Attention: Publications.