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Professional
Qualification

Affected Rules

[Rule G-3](#), [Rule G-7](#),
[Rule G-27](#)

SEC Approves Amendments to MSRB Rule G-3, on Professional Qualification Requirements

Overview

The Municipal Securities Rulemaking Board (MSRB) received approval from the Securities and Exchange Commission (SEC) on August 1, 2014 to amend Rule G-3, on professional qualification requirements, Rule G-7, on information concerning associated persons, and Rule G-27, on supervision.¹

These amendments:

- revise MSRB Rule G-3(a) to limit the scope of permitted activities of a limited representative - investment company and variable contracts products (“Limited Representative”) to sales to and purchases from customers of municipal fund securities;
- eliminate the Financial and Operations Principal (FINOP) classification, qualification and numerical requirements in MSRB Rule G-3(d);
- clarify in Supplementary Material .01 that the term “sales” as used in Rule G-3 includes the solicitation of sales of municipal securities; and
- make technical and conforming amendments.

The amendments will become effective on September 30, 2014. Questions about this notice may be directed to Lawrence P. Sandor, Deputy General Counsel, or Benjamin A. Tecmire, Counsel, at 703-797-6600.

Summary of Amendments

Permissible Activities of a Limited Representative

The amendments narrow the activities permitted of Limited Representatives exclusively to sales to and purchases from customers of municipal fund securities. New paragraph (a)(i)(C) defines the Limited Representative as a municipal securities representative whose activities with respect to municipal securities are limited exclusively to sales to and purchases from

¹ See Exchange Act Release No. 72743 (Aug. 1, 2014), File No. SR-MSRB-2014-04 (Jun. 6, 2014).

customers of municipal fund securities. As of the effective date, individuals engaging in municipal fund securities activities other than sales of municipal fund securities will be required to take and pass the Municipal Securities Representative Qualification Examination (Series 52 exam), which tests the basic competency to perform the activities described in MSRB Rule G-3(a)(i)(A). This amendment harmonizes MSRB and FINRA rules regarding the activities of Limited Representatives.

Rule G-3 Supplementary Material .01

New Supplementary Material .01 (Solicitation of Sales to and Purchases from Customers) is added to clarify that references in the rule to sales of municipal securities or sales to and purchases from customers may also include the *solicitation* of sales to and/or purchases from customers.

Elimination of MSRB's FINOP Requirement

The amendments eliminate the FINOP classification and the requirement that certain dealers designate at least one such principal. Previously, MSRB Rule G-3(d) required that every dealer, excluding bank dealers or certain other dealers identified by reference to the SEC net capital rule, designate at least one FINOP, including its chief financial officer. Although the FINOP requirement has been eliminated in Rule G-3, a dealer's municipal securities principal remains responsible for supervising its municipal securities activities, including operations such as processing, clearance and safekeeping of municipal securities, pursuant to Rule G-3(b)(i) and G-27(b)(ii)(C). The amendment does not affect a dealer's obligation to comply with FINRA's registration requirements pertaining to the "Limited Principal-Financial and Operations".²

Technical and Conforming Amendments

In order to clarify certain MSRB rules and to conform other rules to the amendments, the MSRB has made several technical amendments. These amendments include simplifying the title of Rule G-3 to the more self-explanatory "Professional Qualification Requirements" and modifying the heading of Rule G-3(a) to incorporate the Limited Representative classification.

References to the term FINOP have been eliminated and the introductory paragraph preceding Rule G-3(a) has been amended to add references to municipal securities sales limited representatives, limited representative - investment company and variable contracts products, and municipal fund securities limited principals so that it is clear that these individuals must

² These rules include NASD Rules 1021(e) and 1022(b).

meet the applicable requirements established by Rule G-3 to be properly qualified.

Paragraph (a) of Rule G-7, which defines the term “associated person” has been amended to include Limited Representatives and replace the term FINOP with general securities principal. Limited Representatives are properly classified as associated persons because they are permitted to effect transactions in municipal fund securities as discussed above. General securities principals are associated persons for purposes of the rule as well because they are permitted to supervise certain municipal securities activities under Rule G-27(b)(ii)(C). The amendments also delete Rule G-3(g)(ii), waiver of qualification requirements with respect to the FINOP, as such an exemption has been rendered moot by the elimination of the FINOP classification.

Finally, the SEC approved non-substantive conforming amendments that eliminate references to the FINOP in MSRB Rule G-27 and Rule G-7.

August 4, 2014

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Text of Amendments³

Rule G-3: Professional Qualification Requirements ~~Classification of Principals and Representatives; Numerical Requirements; Testing; Continuing Education Requirements~~

No broker, dealer or municipal securities dealer or person who is a municipal securities representative, municipal securities sales limited representative, limited representative - investment company and variable contracts products, municipal securities principal, municipal fund securities limited principal, or municipal securities sales principal or financial and operations principal (as hereafter defined) shall be qualified for purposes of Rule G-2 unless such broker, dealer or municipal securities dealer or person meets the requirements of this rule.

(a) ~~Municipal Securities Representative, and~~ Municipal Securities Sales Limited Representative and Limited Representative - Investment Company and Variable Contracts Products.

(i) Definitions.

(A) The term "municipal securities representative" means a natural person associated with a broker, dealer or municipal securities dealer, other than a person whose functions are solely

³ Underlining indicates new language; strikethrough denotes deletions.

clerical or ministerial, whose activities include one or more of the following:

- (1) underwriting, trading or sales of municipal securities;
- (2) financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
- (3) research or investment advice with respect to municipal securities; or
- (4) any other activities which involve communication, directly or indirectly, with public investors in municipal securities;

provided, however, that the activities enumerated in subparagraphs (3) and (4) above shall be limited to such activities as they relate to the activities enumerated in subparagraphs (1) and (2) above.

(B) The term “municipal securities sales limited representative” means a municipal securities representative whose activities with respect to municipal securities are limited exclusively to sales to and purchases from customers of municipal securities.

(C) The term “limited representative – investment company and variable contracts products” means a municipal securities representative whose activities with respect to municipal securities are limited exclusively to sales to and purchases from customers of municipal fund securities.

(ii) Qualification Requirements.

(A) Except as otherwise provided in this paragraph (a)(ii), every municipal securities representative shall take and pass the Municipal Securities Representative Qualification Examination prior to being qualified as a municipal securities representative. The passing grade shall be determined by the Board.

(B) The requirements of subparagraph (a)(ii)(A) of this rule shall not apply to:

- (1) any person who is duly qualified as a general securities representative by reason of having taken and passed the General Securities Registered Representative Examination before November 7, 2011, and
- (2) a municipal securities sales limited representative who is duly qualified as a general securities representative by reason of having taken and passed the General Securities Registered Representative Examination.

~~(3)(C) The requirements of subparagraph (a)(ii)(A) of this rule shall not apply to any person who is duly qualified as a limited representative - investment company and variable contracts products by reason of having taken and passed the Limited Representative -~~

Investment Company and Variable Contracts Products Examination, ~~but only if such person's activities with respect to municipal securities described in paragraph (a)(i) of this rule are limited solely to municipal fund securities.~~

(iii) No change.

(b)-(c) No change.

(d) ~~Reserved *Financial and Operations Principal*.~~

~~(i) Definition. The term "financial and operations principal" means a natural person associated with a broker, dealer or municipal securities dealer (other than a bank dealer or a broker, dealer or municipal securities dealer meeting the requirements of subparagraph (a)(2)(iv), (v) or (vi) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof), whose duties include:~~

~~(A) approval of and responsibility for financial reports required to be filed with the Commission or any self-regulatory organization;~~

~~(B) final preparation of such reports;~~

~~(C) overall supervision of individuals who assist in the preparation of such reports;~~

~~(E) overall supervision and/or performance of the responsibilities of the broker, dealer or municipal securities dealer pursuant to the financial responsibility rules under the Act;~~

~~(F) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the processing and clearance functions of such broker, dealer or municipal securities dealer; and~~

~~(G) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the safekeeping functions of such broker, dealer or municipal securities dealer.~~

~~(ii) Qualification Requirements.~~

~~(A) Every financial and operations principal shall be qualified in such capacity in accordance with the rules of a registered securities association.~~

~~(B) Any person who ceases to be associated with a broker, dealer or municipal securities dealer as a financial and operations principal for two or more years at any time after having qualified as such in accordance with this paragraph (d)(ii) shall qualify in such capacity in accordance with the rules of a registered securities association prior to being qualified as a financial and operations principal.~~

~~(iii) Numerical Requirements. Every broker, dealer and municipal securities dealer (other than a bank dealer and a broker, dealer or municipal securities dealer meeting the requirements of subparagraph (a)(2)(iv), (v) or (vi) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof) shall have at least one financial and operations principal, including its chief financial officer, qualified in accordance with paragraph (d)(ii) of this rule.~~

(e)-(f) No change.

(g) *Waiver of Qualification Requirements.*

(i) No change.

~~(ii) The requirements of paragraph (d)(ii) may be waived for any associated person of a broker, dealer or municipal securities dealer in circumstances sufficient to justify the granting of a waiver if such person were seeking to register and qualify with a member of a registered securities association as a financial and operations principal. Such waiver may be granted by a registered securities association with respect to a person associated with a member of such association.~~

(h) No change.

- - - Supplementary Material:

.01 Solicitations of Sales to and Purchases from Customers. In each instance in which the rule references sales of municipal securities or sales to and purchases from customers, such activities may also include the solicitation of sales to and/or purchases from customers.

G-7: Information Concerning Associated Persons

(a) No associated person (as hereinafter defined) of a broker, dealer or municipal securities dealer shall be qualified for purposes of Rule G-2 of the Board unless such associated person meets the requirements of this rule. The term "associated person" as used in this rule means (i) a municipal securities principal, (ii) a municipal securities sales principal, (iii) a ~~financial and operations principal~~ general securities principal engaging in activities listed in Rule G-27(b)(ii)(C)(3), (iv) a municipal securities representative, (v) a municipal securities sales limited representative, (vi) a limited representative – investment company and variable contracts products, and (vii) a municipal fund securities limited principal.

(b)-(h) No change.

G-27: Supervision

(a) No change.

(b) *Supervisory System*. Each dealer shall establish and maintain a system to supervise the municipal securities activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Board rules. Final responsibility for proper supervision shall rest with the dealer. A dealer's supervisory system shall provide, at a minimum, for the following:

(i) No change.

(ii) (A) *General*. The designation of one or more associated persons qualified as municipal securities principals, municipal securities sales principals, and municipal fund securities limited principals, ~~financial and operations principals~~ in accordance with Board rules, or as general securities principals to be responsible for the supervision of the municipal securities activities of the dealer and its associated persons as required by this rule.

(B) No change.

(C) *Appropriate Principal*.

(1) No change.

~~(2) A non bank dealer shall designate a financial and operations principal as responsible for the financial reporting duties specified in Rule G-3(d)(i)(A-E) and with primary responsibility for books and records under paragraph (c)(i)(E) below; provided, however, that a non bank dealer meeting the requirements of Securities Exchange Act Rule 15c3-1(a)(2)(iv), (v) or (vi) or the exemption under Rule 15c3-1(b)(3) may, but is not required to, designate a financial and operations principal as responsible for such financial reporting duties and with primary responsibility for such books and records.~~

~~(3)~~(2) A municipal securities sales principal may be designated as responsible for supervision under paragraphs (c)(i)(B), (C) and (G) and subsection (e)(i) of this rule, to the extent the activities pertain to sales to or purchases from a customer of municipal securities.

~~(4)~~(3) A general securities principal may be designated as responsible for supervision under paragraph (c)(i)(E) and subparagraph (c)(i)(G)(1) of this rule and under Rules G-7(b) and G-21(f).

~~(5) A financial and operations principal may be designated as responsible for supervision under paragraph (c)(i)(F) of this rule.~~

~~(6)~~(4) A municipal fund securities limited principal may be designated as responsible for supervision under sections (a), (b), (c), (d), (e) and (f) of this rule to the extent that the activities pertain solely to transactions in municipal fund securities.

(iii)–(viii) No change.

(c)–(g) No change.