

FAQs Regarding MSRB Rule G-12 on Close-Outs

The Municipal Securities Rulemaking Board (MSRB) is providing answers to frequently asked questions (FAQs) and sample close-out calendars as a compliance resource to enhance understanding of provisions of [MSRB Rule G-12](#), on uniform practice, related to close-outs. Rule G-12(h) mandates the close-out of inter-dealer municipal securities transactions that have been compared or otherwise agreed upon by both parties, but which have not been completed (a “fail”).¹

This resource highlights key rule provisions or considerations to enhance understanding of the rule. It does not create new legal or regulatory requirements or new interpretations of existing requirements and should not be interpreted by regulated entities or examining authorities as establishing new standards of conduct. This resource should be read in conjunction with MSRB rules and interpretations as it does not provide an exhaustive list of considerations for ensuring compliance with the applicable rule(s). The complete text of all MSRB rules and interpretations is available at <http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>.

1. What is a close-out?

The term close-out generally refers to the procedure a purchasing dealer takes to complete a municipal securities transaction if the selling dealer does not deliver the securities by settlement or, similarly, the procedure a selling dealer takes to complete a municipal securities transaction if the purchasing dealer improperly rejects the selling dealer’s good delivery of the securities.

2. What are the close-out requirements under MSRB Rule G-12(h)?

Failed inter-dealer municipal securities transactions shall either be canceled or closed-out by the parties in accordance with Rule G-12(h) no later than 10 calendar days after settlement date. A purchasing dealer can, at its discretion, opt to grant the selling dealer a one-time extension of 10 calendar days before it completes the close-out. In all instances, however, inter-dealer fails must be closed out within no more than a total of 20 calendar days.

3. Is there certain information required to be included in a notice of close-out?

Yes. The information that must be included in notices concerning a close-out is specified in Rule G-12(h)(i)(C), on contents of notices, and includes, among other things:

- Identity of the broker, dealer or municipal securities dealer originating the notice;
- Identity of the broker, dealer or municipal securities dealer to whom the notice is being sent;
- Date of such notice;
- Par value and description of the securities involved in the transaction with respect to which the close-out notice is given;
- Trade date and settlement date of the transaction;
- Price and total dollar amount of the transaction;

¹ See [Exchange Act Release No. 78611 \(Aug. 18, 2016\)](#); [File No. SR-MSRB-2016-07](#); The amendments were effective November 16, 2016.

- Date by which the securities must be received by the originating dealer, which shall be completed within 10 calendar days of the purchaser's original transaction settlement date; and
- Date(s) during which the notice of close-out may be executed.

4. What is the earliest timeline for a close-out under MSRB Rule G-12(h)?

Assuming the purchasing dealer has not granted the selling dealer a one-time 10-calendar-day extension, the timeline to execute a close-out is as follows:

- Settlement + 1 business day² — earliest day purchaser can send notice
- Notice Sent + 1 business day — retransmit the notice to other obliged party, as applicable
- Notice + 3 business days — earliest day for purchaser to establish as the delivery deadline³ to seller
- Notice + 4–7 business days — purchaser's execution dates (or period)
- Settlement + 10 days — last day for both parties to complete close-out

5. What flexibility does the purchasing dealer have in the close-out process under MSRB Rule G-12(h)?

If the purchasing dealer elects to close-out a transaction, the purchaser shall, not earlier than the first business day following the purchaser's original transaction settlement date, notify the selling dealer via an inter-dealer communication system of the registered clearing agency through which the transaction was compared of the purchasing dealer's intention to close-out the transaction ("notice").

If the securities described in the purchasing dealer's notice of close-out are not delivered by the date specified in the original notice, the purchasing dealer can, at its discretion, grant the selling dealer one 10-calendar-day extension.

If the securities described in the purchasing dealer's notice of close-out are not delivered by the date specified in the original notice or, if applicable, the extension date,

the purchasing dealer may, at its option, take one of the following actions:

- Purchase ("buy-in") at the current market all or any part of the securities necessary to complete the transaction for the account and liability of the selling dealer;
- Accept from the selling dealer in satisfaction of the seller's obligation under the original contract (which shall be concurrently cancelled) the delivery of municipal securities that are comparable to those originally bought ("substitutions") in quantity, quality, yield or price, and maturity, with any additional expenses or any additional cost of acquiring such substituted securities being borne by the selling dealer; or
- Require the selling dealer to repurchase ("mandatory repurchase") the securities on terms which provide that the selling dealer pays an amount which includes accrued interest and bear the burden of any change in market price or yield since the time of the original transaction.

6. What flexibility does the selling dealer have in the close-out process under MSRB Rule G-12(h)?

If the selling dealer makes good delivery according to the terms of the transaction and the requirements of Rule G-12 and the purchasing dealer rejects delivery, the selling dealer may elect to close-out the transaction. If the selling dealer elects to close-out a transaction, the selling dealer shall, at any time not later than the close of business on the first business day following the selling dealer's receipt of notice that the purchasing dealer rejected the good delivery of securities, provide notice to the purchasing dealer via an inter-dealer communication system of the registered clearing agency through which the transaction was compared of the selling dealer's intention to close-out the transaction.

In the event the municipal securities transaction is completed by the date and time specified in the selling dealer's notice of close-out, the selling dealer shall be entitled, upon demand made to the purchasing dealer, to recover from the purchasing dealer all actual and necessary expenses incurred by the seller by reason of the purchaser's rejection of delivery.

² Under Rule G-12(b)(i)(B) the term "business day" means a day on which securities transactions may be settled, which would exclude from the category of "business day," any day widely designated as a legal bank holiday. See Rule G-12 (Uniform Practice); Interpretive Notice on Rule G-12 on Uniform Practice and Rule G-15 on Customer Confirmations (November 28, 1977).

³ The date specified by the purchasing dealer issuing a close-out notice as the day by which the securities, which are the subject of the close-out notice, must be delivered.

Not earlier than the close of the business day following the date the selling dealer provides notice of close-out to the purchasing dealer, the seller may sell out the transaction at the current market for the account and liability of the purchaser. Once the selling dealer executes the close-out, the selling dealer must notify, by telephone, the purchasing dealer for whose account and liability the transaction was closed out. The selling dealer shall immediately thereafter confirm such notice and forward a copy of the confirmation of the executed transaction.

Any moneys with any additional expenses or any additional cost due on the close-out of the transaction shall be forwarded to the appropriate party within five business days of the date of execution of the close-out notice.

7. If the purchasing dealer provides notice of the close-out, is it then the responsibility of the purchasing dealer to resolve the fail?

Under Rule G-12(h) **both** the purchasing dealer and the selling dealer have responsibility to resolve the failed transaction, in accordance with the rule's provision, by no later than 10 calendar days after settlement date.⁴ The requirement under the rule exists even if the parties did not transact together, but were "paired off" during the Continuous Net Settlement (CNS) process at the Depository Trust Company (DTC).

BACKGROUND AND ADDITIONAL RESOURCES

[MSRB Rule G-12: Uniform Practice](#)

⁴ Dealers may want to consider reviewing its supervisory controls on close-outs and maintaining appropriate documentation as to the actions taken by the both the selling and purchasing dealer to resolve the fail.

About the MSRB

The MSRB protects investors, state and local governments and other municipal entities, and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its Electronic Municipal Market Access (EMMA[®]) website, the official repository for information on all municipal bonds. The MSRB also serves as an objective resource on the municipal market, conducts extensive education and outreach to market stakeholders, and provides market leadership on key issues. The MSRB is a self-regulatory organization governed by a 21-member board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.

Calendar: Earliest Date to Provide Close-Out Notice

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week 1		Trade Date		Settlement Day	Settlement +1 Business Day		
					Send Notice		
Week 2			Notice +3 Business Days	Notice +4 Business Days	Notice +5 Business Days	Notice +6 Business Days	Settlement +10 Calendar Days
			Delivery Deadline for Seller	← Purchaser Execution Days →			Last Day to Complete Close-Out → Roll to next business day
Week 3	1st Calendar Day Extension	2nd Calendar Day Extension	3rd Calendar Day Extension	4th Calendar Day Extension	5th Calendar Day Extension	6th Calendar Day Extension	7th Calendar Day Extension
	Roll to next business day →	Complete Close-Out					
Week 4	8th Calendar Day Extension	9th Calendar Day Extension	10th Calendar Day Extension				
			Last Day to Complete Close-Out Extension				

Calendar: Close-Out Notice Provided Two Days After Settlement

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week 1		Trade Date		Settlement Day	Settlement +1 Business Day	"Settlement +2 Business Day Send Notice	
Week 2				Notice +3 Business Days	Notice +4 Business Days	Notice +5 Business Days	Settlement +10 Calendar Days
				Delivery Deadline for Seller	← Purchaser Execution Days →		Last Day to Complete Close-Out Roll to next business day →
Week 3	1st Calendar Day Extension	2nd Calendar Day Extension	3rd Calendar Day Extension	4th Calendar Day Extension	5th Calendar Day Extension	6th Calendar Day Extension	7th Calendar Day Extension
	Roll to next business day →		Complete Close-Out				
Week 4	8th Calendar Day Extension	9th Calendar Day Extension	10th Calendar Day Extension				
			Last Day to Complete Close-Out Extension				

Calendar: Close-Out Period with Holiday

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Week 1		Trade Date		Settlement Day	Settlement +1 Business Day	Notice +1 Business Day	
					Send Notice		
Week 2		Holiday — Non Settlement Day	Notice +2 Business Days	Notice +3 Business Days	Notice +4 Business Days	Notice +5 Business Days	Settlement +10 Calendar Days
				Delivery Deadline for Seller	← Purchaser Execution Days →		Last Day to Complete Close-Out → Roll to next business day
Week 3	1st Calendar Day Extension	2nd Calendar Day Extension	3rd Calendar Day Extension	4th Calendar Day Extension	5th Calendar Day Extension	6th Calendar Day Extension	7th Calendar Day Extension
	→ Roll to next business day →		Complete Close-Out				
Week 4	8th Calendar Day Extension	9th Calendar Day Extension	10th Calendar Day Extension				
			Last Day to Complete Close-Out Extension				