

Proposed Rule Change by Municipal Securities Rulemaking Board
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Proposed rule change amending Rule G-27, on supervision, to clarify that the requirements of the rule apply solely in connection with the municipal securities activities of brokers, dealers and municipal securities dealers and their associated persons.

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
 Title
 E-mail
 Telephone Fax

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,
Municipal Securities Rulemaking Board
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date
 By Senior Associate General Counsel
 (Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Changes

(a) The Municipal Securities Rulemaking Board (“Board” or “MSRB”) is hereby filing with the Securities and Exchange Commission (“Commission” or “SEC”) a proposed rule change (the “proposed rule change”) consisting of amendments to Rule G-27, on supervision. The MSRB has proposed that the proposed rule change become operative on February 29, 2008. The proposed rule change is set forth below, with underlining indicating additions and brackets indicating deletions.

Rule 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)-(B) No change.

(C) *Appropriate Principal.*

(1) Each dealer shall designate a municipal securities principal as responsible for its supervision under sections (a), (b), (c), (d), (e) and (f) of this rule, except as provided in this paragraph (C) [section].

(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) A [In addition, 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) A [; 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[e]).

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

(6) 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) The designation as an office of municipal supervisory jurisdiction of each location that meets the definition contained in section (g) of this rule. Each dealer shall also designate such other offices of municipal supervisory jurisdiction as it determines to be necessary in order to supervise its registered representatives, registered principals, and other associated persons with respect to their municipal securities activities in accordance with the standards set forth in this rule, taking into consideration the following factors:

(A) whether registered persons at the location engage in retail sales of municipal securities or other activities involving regular contact with public customers with respect to municipal securities;

(B) whether a substantial number of registered persons conduct municipal securities activities at, or are otherwise supervised from, such location;

(C) whether the location is geographically distant from another office of municipal supervisory jurisdiction of the dealer;

(D) No change.

(E) whether the municipal securities activities at such location are diverse and/or complex.

(iv) The designation of one or more appropriately registered principals in each office of municipal supervisory jurisdiction, including the main office, and one or more appropriately registered representatives or principals in each [non office of supervisory jurisdiction] municipal branch office that is not an office of municipal supervisory jurisdiction with authority to carry out the supervisory responsibilities with respect to municipal securities assigned to that office by the dealer.

(v) The assignment of each registered person to an appropriately registered representative(s) and/or principal(s) who shall be responsible for supervising that person's municipal securities activities.

(vi) Reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities with respect to municipal securities.

(vii) The participation of each registered representative and registered principal, either individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the dealer at which compliance matters relevant to the municipal securities activities of the representative(s) and principal(s) are discussed. Such interview or meeting may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative's(') or principal's(') place of business.

(c) *Written supervisory procedures.*

(i) *General provisions.* Each dealer shall adopt, maintain and enforce written supervisory procedures reasonably designed to ensure that the conduct of the municipal securities activities of the dealer and its associated persons are in compliance as required in section (a) of this rule. Such procedures shall codify the dealer's supervisory system for ensuring compliance and, at a minimum, shall establish procedures

(A) that state how a designated principal shall monitor for compliance by the dealer with all applicable rules and supervise the municipal securities activities of associated persons specified in Rule G-3(a)(i);

(B)-(G) No change.

(ii) *Provisions concerning tape recording of conversations.*

(A) Each dealer that either is notified by the applicable regulatory authority (as defined in subsection (g)(iii)) or otherwise has actual knowledge that it meets one of the criteria in paragraph (c)(ii)(H) relating to the employment history of its registered persons at a disciplined firm (as defined in subsection (g)(v)) shall establish, maintain, and enforce special written procedures for supervising the telemarketing activities with respect to municipal securities of all of its registered persons.

(B) No change.

(C) The procedures required by this subsection shall include tape-recording all telephone conversations between the dealer's registered persons and both existing and potential customers with respect to municipal securities.

(D)-(F) No change.

(G) By the 30th day of the month following the end of each calendar quarter, each dealer subject to the requirements of this subsection shall submit to

the applicable regulatory authority a report on the dealer's supervision of the telemarketing activities with respect to municipal securities of its registered persons.

(H) The following dealers shall be required to adopt special supervisory procedures over the telemarketing activities with respect to municipal securities of their registered persons:

(1)-(4) No change.

(I) No change.

(iii) *Availability of and revisions to written supervisory procedures.* A copy of a dealer's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained in each office of municipal supervisory jurisdiction and at each location where supervisory activities with respect to municipal securities are conducted on behalf of the dealer. Each dealer shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in Board or other applicable rules and as changes occur in its supervisory system, and each dealer shall be responsible for communicating amendments through its organization.

(d) *Internal Inspections.*

(i) Each dealer shall conduct a review, at least annually, of the municipal securities activities in which it engages, which review shall be reasonably designed to assist in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Board rules. Each dealer shall review the municipal securities activities of each office, which shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses.

(A) Each dealer shall inspect at least annually every office of municipal supervisory jurisdiction and any municipal branch office that supervises one or more non-branch locations.

(B) Each dealer shall inspect at least every three years every municipal branch office that does not supervise one or more non-branch locations. In establishing how often to inspect each non-supervisory municipal branch office, the dealer shall consider whether the nature and complexity of the municipal securities activities for which the location is responsible, the volume of business done, and the number of associated persons assigned to the location require the non-supervisory municipal branch office to be inspected more frequently than every three years. If a dealer establishes a more frequent inspection cycle, the dealer must ensure that at least every three years, the inspection requirements enumerated in subsection (d)(ii) have been met. The non-supervisory municipal branch office examination cycle, an explanation of the factors the dealer used in determining the frequency of the examinations in the cycle, and the manner in

which a dealer will comply with subsection (d)(ii) if using more frequent inspections than every three years shall be set forth in the dealer's written supervisory and inspection procedures.

(C) Each dealer shall inspect on a regular periodic schedule every non-branch location. In establishing such schedule, the dealer shall consider the nature and complexity of the municipal securities activities for which the location is responsible and the nature and extent of contact with customers. The schedule and an explanation regarding how the dealer determined the frequency of the examination schedule shall be set forth in the dealer's written supervisory and inspection procedures.

Each dealer shall retain a written record of the dates upon which each review and inspection is conducted.

(ii) An office inspection and review by a dealer pursuant to subsection (d)(i) must be reduced to a written report and kept on file by the dealer for a minimum of three years, unless the inspection is being conducted pursuant to paragraph (d)(i)(C) and the regular periodic schedule is longer than a three-year cycle, in which case the report must be kept on file at least until the next inspection report has been written. The written inspection report must also include, without limitation, the testing and verification of the dealer's policies and procedures, including supervisory policies and procedures in the following areas as they relate to municipal securities:

(A) Safeguarding of customer funds and municipal securities;

(B)-(F) No change.

If a dealer does not engage in all of the activities enumerated above, the dealer must identify those activities in which it does not engage in the written inspection report and document in the report that supervisory policies and procedures for such activities must be in place before the dealer can engage in them.

(iii) An office inspection by a dealer pursuant to subsection (d)(i) may not be conducted by the branch office manager or any person within that office who has supervisory responsibilities or by any individual who is supervised by such person(s). However, if a dealer is so limited in size and resources that it cannot comply with this limitation (e.g., a dealer with only one office or a dealer has a business model where small or single-person offices report directly to an office of municipal supervisory jurisdiction manager who is also considered the offices' branch office manager), the dealer may have a principal who has the requisite knowledge to conduct an office inspection perform the inspections. The dealer, however, must document in the office inspection reports the factors it has relied upon in determining that it is so limited in size and resources that it has no other alternative than to comply in this manner.

A dealer must have in place procedures that are reasonably designed to provide heightened office inspections if the person conducting the inspection reports to the branch office manager's supervisor or works in an office supervised by the branch manager's supervisor and the branch office manager generates 20% or more of the revenue of the business units supervised by the branch office manager's supervisor. For the purposes of this subsection (d)(iii) only, the term "heightened inspection" shall mean those inspection procedures that are designed to avoid conflicts of interest that serve to undermine complete and effective inspection because of the economic, commercial, or financial interests that the branch manager's supervisor holds in the associated persons and businesses being inspected. In addition, for the purpose of this subsection only, when calculating the 20% threshold, all of the revenue generated by or credited to the municipal branch office or branch office manager shall be attributed as revenue generated by the business units supervised by the branch office manager's supervisor irrespective of a dealer's internal allocation of such revenue. A dealer must calculate the 20% threshold on a rolling, twelve-month basis.

(e) ***Review of Correspondence.***

(i) No change.

(ii) *Review of correspondence.* Each dealer shall develop written procedures that are appropriate to its business, size, structure, and customers for the review of incoming and outgoing written (i.e., non-electronic) and electronic correspondence with the public relating to its municipal securities activities, including review for compliance with Rule G-21(e)(vii) to the extent applicable to such dealer's business. Procedures shall include the review of incoming, written correspondence directed to municipal securities representatives and related to the dealer's municipal securities activities to properly identify and handle customer complaints and to ensure that customer funds and municipal securities are handled in accordance with the dealer's procedures. Where such procedures for the review of correspondence do not require review of all correspondence prior to use or distribution, they must include provisions for the education and training of associated persons as to the dealer's procedures governing correspondence; documentation of such education and training; and surveillance and follow-up to ensure that such procedures are implemented and adhered to.

(iii) No change.

(f) ***Supervisory Control System.***

(i) No change.

(ii) The establishment, maintenance, and enforcement of written supervisory control policies and procedures pursuant to subsection (f)(i) shall include:

(A) procedures that are reasonably designed to review and supervise the customer account activity relating to municipal securities conducted by the

dealer's branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function.

(1)-(4) No change.

(B) procedures that are reasonably designed to review and monitor the following activities relating to municipal securities:

(1) all transmittals of funds (e.g., wires or checks, etc.) or municipal securities from customers to third party accounts (i.e., a transmittal that would result in a change of beneficial ownership); from customer accounts to outside entities (e.g., banks, investment companies, etc.); from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and between customers and registered representatives, including the hand-delivery of checks;

(2)-(3) No change.

The policies and procedures established pursuant to this paragraph (f)(ii)(B) must include a means or method of customer confirmation, notification, or follow-up that can be documented. If a dealer does not engage in all of the activities enumerated above, the dealer must identify those activities in which it does not engage in its written supervisory control policies and procedures and document in those policies and procedures that additional supervisory policies and procedures for such activities must be in place before the dealer can engage in them; and

(C) No change.

(g) **Definitions.** For purposes of this rule, the following terms have the following meanings:

(i) "Office of municipal supervisory jurisdiction" means any office of a dealer at which any one or more of the following functions take place with respect to municipal securities:

(A)-(B) No change.

(C) maintaining custody of customers' funds and/or municipal securities;

(D)-(E) No change.

(F) final approval of advertising [or sales literature] for use by persons associated with the dealer, pursuant to Rule G-21(f); or

(G) responsibility for supervising the municipal securities activities of persons associated with the dealer at one or more other municipal branch offices of the dealer.

(ii) (A) A “municipal branch office” is any location where one or more associated persons of a dealer regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any municipal security, or is held out as such, excluding:

(1) No change.

(2) Any location that is the associated person’s primary residence; provided that

(a)-(c) No change.

(d) The associated person is assigned to a designated municipal branch office, and such designated municipal branch office is reflected on all business cards, stationery, advertisements and other communications to the public by such associated person;

(e)-(f) No change.

(g) All orders are entered through the designated municipal branch office or an electronic system established by the dealer that is reviewable at the municipal branch office;

(h)–(i) No change.

(3)-(4) No change.

(5) Any location that is used primarily to engage in non-securities activities and from which the associated person(s) effects no more than 25 municipal securities transactions in any one calendar year; provided that any advertisement [or sales literature] identifying such location also sets forth the address and telephone number of the location from which the associated person(s) conducting business at the non-branch locations are directly supervised;

(6)-(7) No change.

(B) Notwithstanding the exclusions in paragraph (ii)(A), any location that is responsible for supervising the municipal securities activities of persons associated with the dealer at one or more non-branch locations of the dealer is considered to be a municipal branch office.

(C) The term “business day” as used in paragraph (ii)(A) shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated municipal branch office during the hours that such office is normally open for business.

(iii)-(vi) No change.

* * * *

2. Procedures of the Self-Regulatory Organization

The Board adopted the proposed rule change at its July 12-13, 2006 meeting. Questions concerning this filing may be directed to Catherine A. Courtney, Assistant General Counsel, at (703) 797-6600.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) The proposed rule change will amend Rule G-27 to clarify that the requirements of the rule apply solely in connection with the municipal securities activities of brokers, dealers and municipal securities dealers (“dealers”) and their associated persons. Rule G-27 has previously been amended, with an effective date of February 29, 2008, to strengthen the supervisory procedures and controls of dealers effecting transactions in municipal securities, as well as to ensure a coordinated regulatory approach with, and to facilitate inspection and enforcement in this area by, the Financial Industry Regulatory Authority (the “new supervisory requirements”).¹ In its filing with the SEC of the new supervisory requirements, the MSRB had stated that, as a general principle, the requirements of Rule G-27 apply only with respect to those registered persons who engage in municipal securities activities and those offices in which municipal securities activities are undertaken.² The proposed rule change will explicitly incorporate this limitation on the applicability of Rule G-27 throughout the language of the rule, in addition to correcting certain cross-references and making certain formatting changes to improve clarity.

(b) The Board adopted the proposed rule change pursuant to Section 15B(b)(2)(C) of the Exchange Act of 1934 (“Act”), which provides the Board’s rules shall:

¹ See Exchange Act Release No. 55830, File No. SR-MSRB-2006-10 (May 30, 2007), 72 Fed. Reg. 31122 (2007). See also Exchange Act Release No. 56478, File No. SR-MSRB-2007-03 (September 20, 2007), 72 Fed. Reg. 54702 (2007).

² See Exchange Act Release No. 54930, File No. SR-MSRB-2006-10 (December 13, 2006), 71 Fed. Reg. 76400 (2006).

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.

The Board believes that the proposed rule change will facilitate transactions in municipal securities and protect investors and the public interest by clarifying that the requirements of the rule apply solely in connection with the municipal securities activities dealers.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Board does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act since it does not modify existing rule obligations and applies equally to all brokers, dealers and municipal securities dealers.

5. Self-Regulatory Organization's Statement on Comments Received on the Proposed Rule Change by Members, Participants, or Others

The MSRB has received four letters requesting guidance on or amendments to the new supervisory requirements in Rule G-27, as well as a delay in the effectiveness of the new supervisory requirements.³ In summary, these commentators sought to understand the circumstances under which individuals must be qualified as either municipal securities principals or municipal fund securities limited principals in dealers' offices in which supervisory responsibilities are undertaken. The clarification provided by the proposed rule change that the new supervisory requirements of the rule apply solely in connection with the municipal securities activities of dealers and their associated persons, as the MSRB had previously enunciated in the original filing of the new supervisory requirements,⁴ should resolve these and other ambiguities regarding the operation of these new provisions.

6. Extension of Time Period for SEC Action

The MSRB declines to consent to an extension of the time period specified in Section 19(b)(2) of the Act.

³ See letters from College Savings Foundation, Financial Services Institute, Sutherland Asbill & Brennan, LLP, and Securities Industry and Financial Markets Association. The requests for delayed effectiveness were granted in Exchange Act Release No. 56478, File No. SR-MSRB-2007-03 (September 20, 2007), 72 Fed. Reg. 54702 (2007), in which the effective date of the new supervisory requirements was delayed until February 29, 2008.

⁴ See Exchange Act Release No. 54930, File No. SR-MSRB-2006-10 (December 13, 2006), 71 Fed. Reg. 76400 (2006).

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Board has submitted the proposed rule change pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. The proposed rule change effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; (C) was provided to the SEC for its review at least five business days prior to the filing date; and (D) does not become operative until February 29, 2008, which is more than thirty (30) days after the date of its filing and which coincides with the effective date of the new supervisory requirements of Rule G-27.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the SEC

Not applicable.

9. Exhibits

1. Federal Register Notice
2. Comment letters

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-MSRB-2007-05)

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Proposed Rule Change Relating to Rule G-27, on Supervision

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 8, 2007, the Municipal Securities Rulemaking Board (“MSRB” or “Board”) filed with the Securities and Exchange Commission (“Commission” or “SEC”) a proposed rule change (File No. SR-MSRB-2007-05) (“the proposed rule change”) consisting of amendments to Rule G-27, as described in Items I, II, and III below, which Items have been prepared by the MSRB. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. SELF-REGULATORY ORGANIZATION’S STATEMENT OF THE TERMS OF SUBSTANCE OF THE PROPOSED RULE CHANGE

The MSRB is filing with the Commission a proposed rule change consisting of amendments to Rule G-27 to clarify that the requirements of the rule apply solely in connection with the municipal securities activities of brokers, dealers and municipal securities dealers (“dealers”) and their associated persons. The text of the proposed rule change is available on the MSRB’s Web site (<http://www.msrb.org>), at the MSRB’s principal office, and at the Commission’s Public Reference Room.

II. SELF-REGULATORY ORGANIZATION’S STATEMENT OF THE PURPOSE OF, AND STATUTORY BASIS FOR, THE PROPOSED RULE CHANGE

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

In its filing with the Commission, the MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change will amend Rule G-27, on supervision, to clarify that the requirements of the rule apply solely in connection with the municipal securities activities of dealers and their associated persons. Rule G-27 has previously been amended, with an effective date of February 29, 2008, to strengthen the supervisory procedures and controls of dealers effecting transactions in municipal securities, as well as to ensure a coordinated regulatory approach with, and to facilitate inspection and enforcement in this area by, the Financial Industry Regulatory Authority (the "new supervisory requirements").³ In its filing with the SEC of the new supervisory requirements, the MSRB had stated that, as a general principle, the requirements of Rule G-27 apply only with respect to those registered persons who engage in municipal securities activities and those offices in which municipal securities activities are undertaken.⁴ The proposed rule change will explicitly incorporate this limitation on the

³ See Exchange Act Release No. 55830, File No. SR-MSRB-2006-10 (May 30, 2007), 72 Fed. Reg. 31122 (2007). See also Exchange Act Release No. 56478, File No. SR-MSRB-2007-03 (September 20, 2007), 72 Fed. Reg. 54702 (2007).

⁴ See Exchange Act Release No. 54930, File No. SR-MSRB-2006-10 (December 13, 2006), 71 Fed. Reg. 76400 (2006).

applicability of Rule G-27 throughout the language of the rule, in addition to correcting certain cross-references and making certain formatting changes to improve clarity.

2. Statutory Basis

The Board believes that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act of 1934 (“Act”), which provides the MSRB rules shall:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.

The Board believes that the proposed rule change will facilitate transactions in municipal securities and protect investors and the public interest by clarifying that the requirements of Rule G-27 apply solely in connection with the municipal securities activities of dealers and their associated persons.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The Board does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act since it does not modify existing rule obligations and applies equally to all brokers, dealers and municipal securities dealers.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The MSRB has received four letters requesting guidance on or amendments to the new supervisory requirements in Rule G-27, as well as a delay in the effectiveness of the new supervisory requirements. In summary, these commentators sought to understand

the circumstances under which individuals must be qualified as either municipal securities principals or municipal fund securities limited principals in dealers' offices in which supervisory responsibilities are undertaken. The clarification provided by the proposed rule change that the new supervisory requirements of the rule apply solely in connection with the municipal securities activities of dealers and their associated persons, as the MSRB had previously enunciated in the original filing of the new supervisory requirements, should resolve these and other ambiguities regarding the operation of these new provisions.

III. DATE OF EFFECTIVENESS OF THE PROPOSED RULE CHANGE AND TIMING FOR COMMISSION ACTION

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition;
- (iii) become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. SOLICITATION OF COMMENTS

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MSRB-2007-05 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MSRB-2007-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the MSRB's offices. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information

that you wish to make available publicly. All submissions should refer to File Number SR-MSRB-2007-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Nancy M. Morris
Secretary

⁵ 17 CFR 200.30-3(a)(12).

Alphabetical List of Comment Letters

1. College Savings Foundation: Letter to Ernesto A. Lanza, Senior Associate General Counsel, MSRB, from David J. Pearlman, Chairman (August 10, 2007)
2. Financial Services Institute: Letter to Ernesto A. Lanza, MSRB, from David T. Bellaire, General Counsel & Director of Government Affairs (September 14, 2007)
3. Securities Industry and Financial Markets Association: Letter to Ernesto A. Lanza, MSRB, from Leslie M. Norwood, Managing Director and Associate General Counsel (October 17, 2007)
4. Sutherland Asbill & Brennan LLP: Letter to Ernesto A. Lanza, MSRB, from Michael Koffler (September 6, 2007)



CollegeSavings
FOUNDATION

August 10, 2007

Mr. Ernesto A. Lanza
Senior Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314-3412
703.797.6700

Re: Notice 2007-16

Dear Mr. Lanza:

I am writing to you today on behalf of the College Savings Foundation ("CSF"). CSF is a 501(c)(6) organization dedicated to the advancement of 529 college savings programs. CSF's mission is to help American families achieve their education savings goals by working with public policy makers, media representatives and financial services industry executives in support of education savings programs. CSF's members include many of the country's leading financial services firms, and collectively manage more than \$50 billion in savings-type qualified tuition programs, representing more than one-half of the dollars in such programs. CSF also includes associate members that are governmental and non-profit agencies and individuals who support CSF and its mission.

CSF serves the education savings industry as a central repository of information and an expert resource for its members and for representatives of state and federal government, institutions of higher education and other related organizations and associations. The primary focus of CSF is building public awareness of and providing public policy support for 529 plans - an increasingly vital college-savings vehicle.

This letter is in response to MSRB Notices 2007-16 and 2006-33 (the "Notices"), which addressed changes to MSRB Rule G-27. We seek two things. First, we are asking for explicit guidance stating that an Office of Supervisory Jurisdiction ("OSJ") not engaged in any of the enumerated activities listed below need not be staffed with either a Series 51 or Series 53 registered person. Second, if Notice 2007-16 is a departure from the principles stated in Notice 2006-33, we request an extension of the compliance deadline from November 26, 2007, to not earlier than August 30, 2008.

Notice 2006-33 observes that "As a general principle, the requirements of Rule G-27 apply only with respect to those registered persons who engage in municipal securities activities and those offices in which such municipal securities activities are undertaken (regardless of the level or amount of such municipal securities activities)." We are concerned that Notice 2007-16 might be read in a way inconsistent with that language. Specifically, Notice 2007-16 states in part:

"Pursuant to the amendments (as well as NASD requirements), dealers must designate one or more appropriately registered principals in each office of supervisory jurisdiction ("OSJ") and each such principal must be located on site in each OSJ. The definition of OSJ in Rule G-27 includes (among other things) structuring of public offerings or private placements. Thus, if a person in a one-person office is

Ernesto A. Lanza
August 10, 2007
Page 2 of 2

involved in such activities, then that office is an OSJ and that person must be registered as a municipal securities principal."

We request clarification that an OSJ in which none of the following activities takes place with respect to municipal securities will not be considered one that is required to have either a Series 51 or Series 53 registered person. These activities are as follows: (1) order execution; (2) structuring of public offerings or private placements; (3) maintaining custody of customers' funds and/or securities; (4) final acceptance (approval) of new accounts on behalf of the member firm; (5) review and endorsement of customer orders pursuant to subparagraph (c)(i)(G)(2) of Rule G-27; (6) final approval of advertising or sales literature for use by persons associated with the member, pursuant to Rule G-21(f), or (7) responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member.

We also believe that the foregoing activities are a complete list of the types of activities that would give rise to the obligation to have a Series 51 or Series 53 registered person under Rule G-27(b)(iv). In this respect, we also have the understanding to the extent an OSJ's activities relate solely to 529 plan business the appropriate registered principal would only need to have a Series 51. If other activities could give rise to the application of the rule, we request guidance setting forth the nature of such other activities.

We believe that this is consistent with the language of Notice 2006-33 cited above, and that Notice 2006-33 is the correct expression of Rule G-27, which does not on its face apply to offices not engaged in the types of municipal securities activities enumerated in the previous paragraph. If Notice 2007-16 was intended to contradict the language quoted from Notice 2006-33, we believe it is inconsistent with the application of Rule G-27, which applies only to municipal securities business, not all business of the member firm. We believe that applying Rule G-27 to all business of the member would exceed the jurisdiction of the MSRB, which is limited to the regulation of the distribution of municipal securities.

The costs of compliance with Rule G-27, as amended, will be significant. If the language in Notice 2007-16 is not read consistently with the quoted language from Notice 2006-33 and the scope of the MSRB's authority generally, it will be even greater, with no corresponding benefit to the investing public.

If the MSRB is interpreting G-27 inconsistently with Notice 2006-33, to accomplish the necessary changes by November 26, 2007 will be an excessive burden on member firms, given the needed changes to organizational structures and the need for individuals in OSJs to pass the Series 51 or Series 53 exam. If such is the intent of Notice 2007-16, we respectfully request that the compliance deadline be extended to not earlier than August 30, 2008, so firms can update their policies and procedures, and implement any necessary changes required.

Please do not hesitate to call me at 817-474-8298 if you believe we can be of further help.

Sincerely,



David J. Pearlman
Chairman



VOICE OF INDEPENDENT BROKER-DEALERS
AND INDEPENDENT FINANCIAL ADVISORS

www.financialservices.org

VIA ELECTRONIC MAIL

September 14, 2007

Ernesto A. Lanza, Esq.
Senior Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314

RE: Amendments to Rule G-27 on Supervision

Dear Mr. Lanza:

On May 22, 2007, the Securities and Exchange Commission (SEC) approved amendments to Municipal Securities Rulemaking Board (MSRB) Rule G-27 (Amended Rule). These amendments were designed to incorporate many of the requirements of NASD (now FINRA) Conduct Rules 3010 and 3012 in order to promote regulatory consistency and specifically apply such rules to the municipal securities activities of broker-dealers. The requirements of the Amended Rule will become effective on November 26, 2007.

Members of the Financial Services Institute¹ (FSI) are concerned that the Amended Rule will have significant unintended consequences for the distribution of 529 college savings plans and other municipal securities to appropriate investors and the supervision efforts of broker-dealers over these sales. As a result, we encourage the MSRB to reassess the Amended Rule's requirement that dealers designate one or more appropriately registered municipal securities principals in each Office of Supervisory Jurisdiction (OSJ). We would appreciate your consideration of our comments on the Amended Rule.

Background on FSI Members

The Amended Rule is of particular interest to FSI members. The independent broker-dealer (IBD) community has been an important and active part of the lives of the American investors for more than 30 years. The IBD business model focuses on comprehensive financial planning services and unbiased investment advice with little, if any, proprietary product bias.² IBD members also share a number of other similar business characteristics. They generally clear their securities business on a fully disclosed basis; primarily engage in the sale of packaged products, such as mutual funds, variable insurance products, and 529 college savings plans; take a comprehensive approach to their clients' financial goals and objectives; and provide investment advisory services through either affiliated registered investment advisor firms or such firms owned by their registered representatives. IBD firms utilize extensive OSJ networks to supervise their financial

¹ FSI members are independent broker-dealers, often dually registered as federal investment advisors, and their affiliated independent financial advisors. FSI's 110 Broker-Dealer members have more than 130,000 independent contractor registered representatives serving more than 14 million American households and generating in excess of \$13.5 billion in annual revenues. FSI also has more than 7,500 Financial Advisor members.

² Some large independent broker-dealer firms offer proprietary products such as mutual fund, variable annuity, and/or investment advisor products produced by an affiliated or parent insurance company, broker-dealer or investment advisor. Nevertheless, these IBD firms, and their proprietary products, represent the exception to the rule.

advisor's activities, while consolidating certain particularly sensitive supervisory functions at their home office. Due to their unique business model, IBDs and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their financial goals and objectives.

In the U.S., approximately 110,000 independent financial advisors – or approximately 20 percent of all registered representatives – practice in the IBD channel.³ These financial advisors are independent contractors, rather than employees of the IBD firms. Independent financial advisors are entrepreneurial business owners who typically have strong ties, visibility, and individual name recognition within their communities and client base. Independent financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans with financial education, planning, implementation, and investment monitoring. Clients of independent financial advisors are typically “Main Street America” – it is, in fact, almost part of the “charter” of the independent channel. The core market for advisors affiliated with IBDs is clients with a net worth of \$250,000. Independent financial advisors get to know their clients personally and provide them investment advice in face-to-face meetings. Education and retirement planning are issues of primary importance to these investors. Most independent financial advisors' new clients come through referrals from existing clients or other centers of influence.⁴ Due to their close ties to the communities in which they operate their small businesses, we believe these financial advisors have a strong incentive to make the achievement of their clients' investment objectives their primary goal.

Detailed Comments

FSI members are concerned that the Amended Rule will have significant unintended consequences for the distribution of 529 college savings plans and other municipal securities to appropriate investors and the supervision efforts of broker-dealers over sales of these products. We encourage the MSRB to reconsider the Amended Rule's requirement that dealers designate one or more appropriately registered municipal securities principals in each OSJ for the following reasons:

1. Amended Rule Mandates an Ineffective Supervision Structure – We agree with the MSRB's conclusion that broker-dealers' municipal securities activities should be subject to supervision by persons who have demonstrated in-depth knowledge of MSRB rules by passing the Series 51 or 53 exam. However, we believe that the Amended Rule's requirement that supervision of municipal securities activities be carried out by designated municipal securities principals physically located in each OSJ may very well result in less stringent supervision of these activities than other viable supervisory structures.

IBD firms typically use the services of independent contractor registered principals working in OSJs to facilitate the supervision of their affiliated financial advisors.⁵ These

³ Cerulli Associates, Quantitative Update: Intermediary Markets 2006. Please note that this figure represents a conservative estimate of independent financial advisors. In fact, more than 130,000 financial advisors are affiliated with FSI member firms.

⁴ These “centers of influence” may include lawyers, accountants, human resources managers, other trusted advisors, or members of affinity groups.

⁵ NASD Conduct Rule 3010(g) defines an OSJ as “any office of a member at which any one or more of the following functions take place: (A) order execution and/or market making; (B) structuring of public offerings or private placements; (C) maintaining custody of customers' funds and/or securities; (D) final acceptance (approval) of new accounts on behalf of the member; (E) review and endorsement of customer orders, pursuant to paragraph (d) above; (F) final approval of advertising or sales literature for use by persons associated with the member, pursuant to Rule

OSJ Managers are appropriately licensed individuals who agree to undertake certain supervisory obligations for the offices under their supervisory jurisdiction as defined by the IBD firm. The average IBD has 150 registered principals who serve as OSJ Managers in the field - ranging from an average of 58 for IBD firms with fewer than 500 financial advisors to 389 for IBD firms with more than 2000 financial advisors. The OSJ Manager is generally compensated for his supervisory services through a percentage of the commissions and fees generated by the financial advisors he supervises.⁶ Frequently the OSJ Manager also dedicates time to servicing his own clientele. As a result, the OSJ Manager's time is allocated between sales and service of investor accounts and supervision of the activities of other financial advisors.

In light of these competing demands on the time and attention of their OSJ Managers, many IBD firms have chosen to limit the supervisory responsibilities delegated to them. These firms have chosen to centralize certain compliance functions at either their corporate home office or in regional supervisory offices staffed by appropriately licensed compliance professionals. Some IBD firms have gone so far as to create separate supervisory units dedicated full-time to the oversight of producing OSJ Managers. The review of advertising, outside business activities, and transactions in certain complicated product types (e.g., municipal securities, including 529 college savings plans) are commonly handled in this fashion. Regional supervisory managers or other broker-dealer personnel handling these functions are experienced compliance professionals who have often developed specialized skills and knowledge in their area of expertise. IBD firms work closely with their regional supervisory managers and home office compliance staff to insure they have the information and resources necessary to properly supervise their assigned representatives. These regional managers and home office compliance personnel are a very important and effective part of an IBD firm's compliance program.

IBD firms have endeavored to create a culture of compliance within their organizations, which they believe is best served through their chosen supervisory structure. They have developed these supervisory structures in response to regulatory guidance and their own hard earned experience.⁷ Nevertheless, the Amended Rule would mandate that a municipal securities principal be physically located in each OSJ despite the fact that this structure has been rejected by many IBD firms because it is prone to a lack of uniformity of supervision, results in the delegation of responsibility to persons who are less experienced or informed in an area requiring specialized knowledge, and has otherwise proven ineffective. For these reasons, we believe that it would be unfortunate if the MSRB chose to replace their reasoned judgment with a regulatory mandate that is likely to result in less effective investor protection efforts.

2210(b)(1); or (G) responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member."

⁶ "Keeping Up," *Investment Advisor*, June 2005.

⁷ See example of NASD guidance in Notice to Members 86-65 at http://nasd.complinet.com/nasd/display/display.html?bid=1189&record_id=1159004789&highlight=86-65#r1159004789. See examples of SEC guidance in Letter to Gordon S. Macklin, President, NASD, from Douglas Scarff, Director, Division of Market Regulation, the Commission (1982-83 Transfer Binder), Fed. Sec. L. Rep. (CCH) paragraph 77,303, at 78,116 (June 12, 1982), and Division of Market Regulation, Staff Legal Bulletin No. 17, Remote Office Supervision (March 19, 2004) at <http://www.sec.gov/interps/legal/mrslb17.htm>. Also see, In re Royal Alliance Associates, Inc., Securities Exchange Act Release No. 34-31874, 63 S.E.C. Docket 1606 (Jan. 15, 1997) and In re Signal Securities, Inc., et al., Securities Exchange Act Release No. 34-43350, 73 S.E.C. Docket 928 (Sept. 26, 2000).

2. Amended Rule Will Limit Access to Municipal Securities Products – The Amended Rule’s requirement that OSJs have a municipal securities principal on-site is likely to limit investor access to municipal securities products by creating an unnecessary barrier to entry to the sale of these important products. This would be unfortunate in light of the essential role municipal securities products, including 529 college savings plans, can play in the financial planning efforts for most investors.

As you know, 529 plans allow investors to save for the college education expenses of their children on a tax deferred basis while retaining control of the funds within the plan. However, despite their many benefits to investors, obtaining the necessary principal exams may not be seen by some OSJ managers as an effective use of their time and resources. This is largely due to the relatively small size of the typical 529 college savings plan account and resulting commissions.⁸ The revenue generated by the typical 529 plan ticket simply isn’t compelling enough to motivate many OSJ Managers to obtain the necessary principal license. By placing this unnecessary hurdle before the OSJ Manager, the Amended Rule will have the unintended consequence of limiting the public’s access to these important products.

The same is true for other municipal securities. As the baby boom generation reaches retirement age, municipal bonds will grow in importance for their financial future. Financial advisors are aware that many of the clients will soon transition from the accumulation phase to the distribution phase of their financial lives. The unfortunate reality is that the complexity of the required principal exam and the necessary study time to ensure passage will serve as a significant impediment to OSJ Managers obtaining the necessary licenses and, therefore, as an impediment to properly licensed financial advisors’ ability to offer these securities to investors who could benefit from them. Even those OSJ managers who are motivated to attain the appropriate principal license will have a difficult time obtaining the necessary municipal securities principal exam by the November 26 deadline. A search of several exam preparation company web sites reveal that few offer training courses for the Series 51 or 53 examinations.⁹ As a result, OSJ managers will be forced to engage in self-study while continuing to service their existing clients, market their services to new clients, and perform supervisory functions over other producing financial advisors. It is likely that exam preparation will have stiff competition for the registered principal’s time and attention. Thus the Amended Rule serves to limit access to municipal securities.

While the MSRB’s desire to improve investor protection is laudable, the Amended Rule will have the unintended consequence of restricting access to these valuable securities products at a time when they are most needed by middle-class Americans. This is especially troubling in light of the fact that the Amended Rule is unlikely to achieve its goal. As a result, we ask the MSRB to reconsider this portion of the Amended Rule.

⁸ According to the Investment Company Institute, the average 529savings plan account size is approximately \$12,500.00. See at http://www.ici.org/funds/abt/faqs_529.html.

⁹ See, for example, Securities Training Corporation (STC) which offers a handful of Series 53 classroom courses in the states of Colorado, Florida, and New York despite the likelihood that demand will be at its peak during the next several months. Meanwhile, STC does not offer a classroom preparation for the Series 51 examination. See at <http://www.stcusa.com/content/securities/licensing.asp>.

Recommendation for Improving the Amended Rule

We recognize the MSRB's desire to harmonize with existing FINRA Rules for the purposes of promoting regulatory consistency. However, the Amended Rule's requirement that dealers designate one or more appropriately registered municipal securities principals in each OSJ would have significant unintended consequences. Therefore, we recommend that the MSRB delete section (b)(iv) of the Amended Rule. Such a change will allow broker-dealer firms the flexibility necessary to create effective supervisory structures appropriate for their unique business model and will allow investors greater access to important municipal securities products.

We are committed to constructive engagement in the regulatory process and, therefore, would welcome the opportunity to work with you to find solutions to these concerns that achieve your objectives without the unintended consequences we have outlined above.

Thank you for your consideration of our comments. Should you have any questions, please contact me at 770 980-8488.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by the name "Bellaire".

David T. Bellaire, Esq.
General Counsel & Director of Government Affairs

pc: Jill C. Finder, Esq., Associate General Counsel, Municipal Securities Rulemaking Board



October 17, 2007

Ernesto A. Lanza
Senior Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314

Re: Request for Amendment to or Delayed Implementation of Revisions
to MSRB Rules G-27, G-8 and G-9

Dear Mr. Lanza:

The Securities Industry and Financial Markets Association (“Association”)¹ requests further review, clarification and changes regarding Municipal Securities Rulemaking Board (“MSRB”) Rule G-27 on supervision, as well as related amendments to Rule G-8 on books and records, and Rule G-9 on preservation of records, as approved by the Securities and Exchange Commission (“SEC”) on May 22, 2007.² These changes are summarized in MSRB Notice 2006-33 (November 26, 2006).

The Association’s Member firms’ concerns involve neither the existing National Association of Securities Dealers (“NASD”) definition of office of supervisory jurisdiction (“OSJ”)³ nor that the MSRB intends generally to read MSRB Rule G-27 and its other rules consistently with analogous NASD provisions. Instead, our Member firms’ concerns are based on the consequences of Paragraph 2 in MSRB Notice 2007-16 which states in part: “Thus, if a person in a one-person office is involved in such activities [i.e., “structuring of

¹ The Association, or “SIFMA,” brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

² Exchange Act Release No. 55792 (May 22, 2007) (“SEC Approval Order”).

³ See NASD Notice to Members 07-12 (NASD Requests Comment on Proposed Amendments to Rules 3010(g) and 2711 in Connection with the Rule Harmonization Project with the NYSE). It is important to note that the Financial Industry Regulatory Authority (“FINRA”), as successor to the NASD, has not approved adoption of this rule proposal and that the FINRA rules on supervision are not yet to be “harmonized”. Until Rule 3010(g) is finalized, we feel strongly that it is premature to “harmonize” this rule with MSRB Rule G-27.

Ernesto A. Lanza
Municipal Securities Rulemaking Board
October 17, 2007
Page 2 of 4

public offerings or private placements”], then that office is an OSJ and that person must be registered as a municipal securities principal.”

In the context of the municipal securities or municipal fund securities business, we note there is no guidance on the definition of “structuring of public offerings or private placements”.⁴ In the absence of such a definition, firms are making their own decisions as to what constitutes structuring. Respectfully, Member firms should be permitted, in good faith and based on their particular business operations, to determine whether or not specific offices engage in the “structuring of public offerings or private placements”.

Many firms currently have one-person offices that conduct some municipal securities business, but such offices are supported and supervised by another office with an on-site principal.⁵ Such an office operates as a branch office and not as an OSJ. As a branch office, the functions of the office are overseen by one or more duly qualified supervisors in another office. However, if the office is deemed to be an OSJ, the one member of the office would necessarily have to supervise himself/herself. That is not a logical outcome, and such a system would defeat the “checks” and oversight that a separate supervisor should be providing. Requiring a principal in a one-person office that already is effectively supervised by another office serves no practical or regulatory purpose.

For any offices that engage or seek to engage in certain municipal securities business but do not engage in any particular securities dealings with any investors, effect transactions in any securities and/or receive or handle any securities or funds, there is limited, if any, possible danger to the investing public or to the integrity of the securities markets generally. In such situations, there is no public policy rationale or other advantage to requiring an on-site principal, particularly in light of the additional costs and time expended to maintain such licenses. This is true especially when, as here, such offices already are supervised by one or more duly qualified principals in another office. The key should be that as long as offices are supervised properly by a principal or principals in one or more other offices that have one or more Series 53 (or in the case of 529 plans, Series 51) principals, firms should be considered to have satisfied the regulatory paradigm. Firms especially should be allowed to apply “risk based” approaches to their supervisory obligations, and tailor their actions to their particular business, facts and circumstances.⁶ For “supervision”, one size does not fit all.

⁴ See, generally, MSRB Rule G-23 for reference to “structuring” in the context of a financial advisory relationship and as an underwriting activity.

⁵ It is important to note that we are only addressing small offices. Existing NASD Rule 3010(a)(3)(B) currently requires an onsite principal when a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, a location.

⁶ See, e.g. NASD Notice to Members 07-30 (NASD and NYSE Request Comment on Proposed Joint Guidance Regarding the Review and Supervision of Electronic Communications).

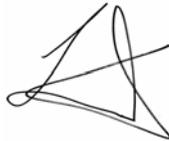
Ernesto A. Lanza
Municipal Securities Rulemaking Board
October 17, 2007
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Additionally, our Member firms cannot, without substantial difficulty and in light of ambiguity in the rule set, comply with the rule's apparent requirement to have a Series 51 or 53 in every single office that the MSRB seemingly considers to be an OSJ, by the effective date of the rule changes of February 29, 2008. To that end, and if the relief requested above is not granted, we respectfully request that implementation of this rule change be delayed an additional 3 months until May 31, 2008 to give Member firms the adequate time needed to have the appropriate professionals take the necessary licensing exams.

In summary, we request respectfully that the MSRB withdraw or reissue, consistent with the discussion above, Paragraph 2 in MSRB Notice 2007-16. Alternatively, we request respectfully that implementation of this rule change be delayed further until May 31, 2008⁷.

Thank you for your consideration. If you have any questions concerning these comments, or would like to discuss these comments further, please feel free to contact the undersigned at 646.637.9230 or via email at lnorwood@sifma.org.

Respectfully submitted,



Leslie M. Norwood
Managing Director and
Associate General Counsel

⁷ SIFMA does recognize and appreciate the delayed effective date of November 26, 2007 as described in MSRB Notice 2007-27.

Ernesto A. Lanza
Municipal Securities Rulemaking Board
October 17, 2007
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cc: Ms. Lynnette Hotchkiss, Municipal Securities Rulemaking Board
Diane Klinke, Esq., Municipal Securities Rulemaking Board
Hal Johnson, Esq., Municipal Securities Rulemaking Board

Securities Industry and Financial Markets Association

Municipal Executive Committee
Municipal Legal Advisory Committee
Municipal Syndicate & Trading Committee



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September 6, 2007

Mr. Ernesto A. Lanza
Senior Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314-3412

Re: Notice 2007-16

Dear Mr. Lanza:

I respectfully submit this letter requesting interpretive guidance from the Municipal Securities Rulemaking Board ("MSRB") on behalf of a number of broker-dealers (the "Firms") that sell municipal bonds and municipal fund securities ("529 Plans"). On May 22, 2007, the Securities and Exchange Commission (the "SEC") approved amendments to MSRB Rule G-27 (the "Rule") that effectively will require the Firms and many other broker-dealers selling municipal securities to significantly revamp their supervisory structures. The Firms request that the Rule be interpreted so as to not require broker-dealers to maintain a municipal securities principal (a "Municipal Securities Principal") or a municipal fund securities limited principal (a "Municipal Fund Securities Principal"), as appropriate, in each office of supervisory jurisdiction ("OSJ") in the circumstances described below.

I. BACKGROUND

The Firms are general securities, retail broker-dealers that offer and sell various types of securities including, but not limited to, equities, corporate bonds, government securities, mutual funds, variable insurance products, 529 Plans and municipal bonds for their customers. All of the Firms are members of the Financial Industry Regulatory Authority ("FINRA"), formerly the National Association of Securities Dealers, Inc. ("NASD"). The Firms do not make markets in municipal securities, structure public offerings or private placements of municipal securities or maintain customer funds and/or securities with respect to their municipal securities activities. In addition, the Firms are introducing broker-dealers that have clearing arrangements with clearing

broker-dealers that complete the execution of securities trades. 529 Plans are processed by the Firms on a “check and application” basis.¹

Each Firm has registered representatives spread throughout the country or in various sections of the country. Collectively, the Firms have approximately 28,900 registered representatives. Virtually all of the Firms’ registered representatives are located at offices that are “branch offices” within the meaning of NASD Conduct Rule 3010(g)(2).

A. Supervisory Systems

The securities activities of the registered representatives at each Firm are supervised by principals located at multiple locations. Each Firm has Municipal Securities Principals (or Municipal Fund Securities Principals, as appropriate) located at one or more regional offices, “back offices” or the home office (collectively, “Operational OSJs”). The Operational OSJs are responsible for reviewing and supervising particular activities with respect to certain types of securities. If the relief requested by this letter is granted, these Operational OSJs would generally be responsible for the following functions regarding such securities:

- The review of securities transactions, including the review of municipal bond transactions and 529 Plan transactions;²
- The review of incoming and outgoing written (*i.e.*, non-electronic) and electronic correspondence by the Firms’ registered representatives with the public, including the review of outgoing correspondence relating to municipal bonds and 529 Plans;
- The review of customer complaints, including those relating to municipal bonds and 529 Plans;
- The review of the periodic inspections of branch offices and Field OSJs (discussed below), including the municipal securities activities of such offices (as required by Rule G-27(d)(i)(B));³ and
- The review of advertisements, including the review of advertisements (within the meaning of MSRB Rule G-21) relating to municipal bonds and 529 Plans.⁴

¹ This means that a customer completes a 529 Plan application and submits the application along with a check made payable to the 529 Plan issuer. The Firms review, process and forward the application and check to the program manager, primary distributor or other agent specified in the Official Statement.

² In addition to the suitability reviews conducted by the Municipal Securities Principals or Municipal Fund Securities Principals located in the Operational OSJs, some of the Firms have their Field OSJ managers conduct a preliminary suitability review of transactions in municipal bonds or 529 Plans. These preliminary reviews do not represent the Firms’ official transaction reviews and are an additional investor protection safeguard that has been implemented by such Firms.

³ For some of the Firms, Municipal Securities Principals or Municipal Fund Securities Principals, as appropriate, are responsible for the review and approval of periodic inspection reports, and appropriate follow-up thereon, that are written by individuals who are not Municipal Securities Principals or Municipal Fund Securities Principals following inspections conducted by such individuals.

In addition to the Operational OSJs, the Firms maintain approximately 635 “Field OSJs” that are typically staffed with managers who are general securities principals for purposes of NASD Membership and Registration Rule 1022(a) (“General Securities Principals”) or Limited Principals - Investment Company and Variable Contracts Products for purposes of NASD Membership and Registration Rule 1022(d). The Field OSJ managers are tasked with serving as the Firms’ “eyes and ears.” They accomplish this by visiting registered representatives under their supervision, performing compliance interviews with the registered representatives, facilitating registered representatives’ education, testing, registration and attendance at training meetings, monitoring and evaluating registered representatives’ sales activities and transactions from commission records, summaries, transaction reports and/or exception reports, occasionally accompanying registered representatives’ on sales calls, communicating and distributing information from the Home Office, Compliance Department or Legal Department to registered representatives, acting as liaison between the registered representatives and the Home Office, Compliance Department and/or Legal Department, assisting the Home Office, Compliance Department and/or Legal Department in gathering documents, following up with the registered representatives as requested by the Home Office, Compliance Department and/or Legal Department, reporting findings regarding exceptions or other red flags to the Home Office, Compliance Department and/or Legal Department or a principal located in an Operational OSJ (who is a Municipal Securities Principal or Municipal Fund Securities Principal, as appropriate) and providing information and informal training to registered representatives (collectively, “Limited General Supervision”).

B. NASD Supervisory Requirements

The supervisory structures employed by the Firms and the division of supervisory responsibility among the Operational OSJs and Field OSJs are an outgrowth of the Firms’ historical development and compliance with long-standing supervision requirements of the NASD. In this respect, NASD Conduct Rule 3010(a)(4) requires a broker-dealer’s supervisory system to provide for “[t]he designation of one or more appropriately registered principals in each OSJ, including the main office, and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office by the member.” NASD Conduct Rule 3010(a)(5) requires a broker-dealer’s supervisory system to provide for “[t]he assignment of each registered person to an appropriately registered representative(s) and/or principal(s) who shall be responsible for supervising that person’s activities.” In explaining the requirements imposed by this rule, the NASD wrote in Notice to Members (“NTM”) 99-45 that “[p]aragraph (a)(5) of the Rule requires that each registered person be assigned to at least one supervisor.”⁵ These rules

⁴ Some of the Firms might have General Securities Principals continue to review municipal securities advertisements, as permitted by Rule G-21(f).

⁵ NTM 99-45 gives examples of registered representatives’ various activities being supervised by multiple principals.

thus provide for and anticipate that broker-dealers will, if appropriate for their business, assign various principals to supervise a registered representative's activities.⁶

The principle of "specialization" that is embodied in Rule 3010 underlies the Firms' supervisory structures described above. It allows principals with a particular expertise and knowledge to bring their area of specialization to bear on the Firms' securities activities and thereby provide consistency, uniformity and a high level of review of the securities activities of registered representatives who are spread out in the thousands of offices around the country. The ability to have principals specialize and be responsible for discrete activities or functions allows the Firms to mitigate risks that would otherwise arise by having crucial supervisory activities carried out at thousands of small office locations. Another benefit of specialization is that it permits Field OSJ managers to focus on what they can do most effectively. Specialization thus helps the Firms meet their obligation, under NASD Rule 3010, to craft supervisory systems that are tailored to their business. NTM 99-45, for instance, states:

Regardless of its size or complexity, each member must adopt and implement a supervisory system that is *tailored specifically to the member's business* and must address the activities of all its registered representatives and associated persons. . . . To fulfill its obligations to establish and maintain a supervisory system, a member must determine the types of business it conducts, how the firm is organized and operated, and the current regulatory requirements. This analysis will enable the member to design a supervisory system that is current and appropriately tailored to its specific attributes and structure. (Emphasis in original).

The supervisory structures adopted by the Firms fit their business structures and the large number of small offices they have around the country. They permit the Field OSJ managers to be in close proximity to and to keep tabs on the securities activities of the registered representatives in their region and to spot red flags. As discussed below, these structures, which the Firms have had in place for many years, are in jeopardy if the interpretive relief requested by this letter is not granted.

II. DISCUSSION

In MSRB Notice 2006-33, the MSRB announced that it had proposed amendments to the Rule ("Proposed Amendments"). Among other things, the Proposed Amendments would modify section (b) of the Rule and incorporate certain provisions from NASD Conduct Rule 3010 into the Rule. In particular, the Proposed Amendments would require broker-dealers to:

- Designate certain locations as OSJs (Rule G-27(b)(iii));
- Designate one or more appropriately registered principals in each OSJ, including the main office, and one or more appropriately registered representatives or principals in

⁶ NASD Conduct Rule 3010(a)(6) also requires member firms to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities.

each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office (Rule G-27(b)(iv));

- Assign each registered person to an appropriately registered representative(s) or principal(s) who shall be responsible for supervising that person's activities (Rule G-27(b)(v)); and
- Make reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities (Rule G-27(b)(vi)).

A. New Requirements Imposed by Rule G-27

According to Notice 2006-33, the MSRB intended the amendments to incorporate most of the requirements contained in NASD Conduct Rule 3010 in order to promote regulatory consistency and make these requirements specifically applicable to the municipal securities activities of broker-dealers. In approving the Proposed Amendments, the SEC noted "[t]he MSRB intends generally that the provisions of Rule G-27 be read consistently with the analogous NASD provisions, unless the MSRB specifically indicates otherwise."⁷ However, the Rule, as amended by the Order (the "Amended Rule"), imposes a second layer of supervisory requirements on top of the Firms' existing supervisory structures (which have been in place for many years to comply with the supervisory requirements imposed by NASD Conduct Rule 3010). By doing so, the Proposed Amendments impose an enormous regulatory burden on the Firms with little public benefit.

1. Definition of OSJ

The Amended Rule introduces the concept of an OSJ to the MSRB's regulatory framework, which is defined as any office of a broker-dealer at which any one or more of the following functions take place:

- (i) Order execution and/or market making;
- (ii) Structuring of public offerings or private placements;
- (iii) Maintaining custody of customers' funds and/or securities;
- (iv) Final acceptance (approval) of new accounts on behalf of the broker-dealer;
- (v) Review and endorsement of customer orders, pursuant to Rule G-27(c)(i)(G)(2);

⁷ Securities Exchange Act of 1934 Release No. 55792 (May 22, 2007), Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Approving Proposed Rule Change Relating to Amendments to Rule G-27, on Supervision, Rule G-8, on Recordkeeping, and Rule G-9, on Record Retention, (the "Order").

- (vi) Final approval of advertising or sales literature for use by persons associated with the broker-dealer, pursuant to Rule G-21(f); or
- (vii) Responsibility for supervising the activities of persons associated with the broker-dealer at one or more other branch offices (the "Supervision Requirement").

The Amended Rule defines a "branch office" as any location where one or more associated persons of a broker-dealer regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any municipal security, or is held out as such, subject to a number of exceptions. In addition, any location that is responsible for supervising the activities of persons associated with the member at one or more non-branch locations of the broker-dealer is considered to be a branch office.

2. Appropriately Registered Principal

Subparagraph (b)(ii)(C) of the Amended Rule is entitled "Appropriate Principal" and specifies which types of principals can be responsible for a broker-dealer's supervision of its municipal securities activities. While the subparagraph defaults to a Municipal Securities Principal, importantly there are various exceptions. For instance, the subparagraph permits broker-dealers to designate municipal securities sales principals, General Securities Principals and financial and operations principals to be responsible for supervising various aspects of a broker-dealer's municipal securities business. In particular, a *municipal securities sales principal* may be designated as responsible for handling customer complaints concerning municipal securities activities (Rule G-27(c)(i)(B)), supervising the regular review of customer accounts introduced or carried by the broker-dealer (Rule G-27(c)(i)(C)), reviewing and approving the opening of customer accounts and transactions in municipal securities (Rule G-27(c)(i)(G)), and reviewing incoming and outgoing correspondence (Rule G-27(e)(i)), to the extent the activities pertain to sales to or purchases from a customer. A *General Securities Principal* may be designated as responsible for supervising the maintenance and preservation of the broker-dealer's books and records (Rule G-27(c)(i)(E)), reviewing and approving the opening of customer accounts (Rule(c)(i)(G)(1)) and reviewing and approving advertisements relating to municipal securities (Rule G-21(f)).⁸ In addition, a *financial and operations principal* may be designated as responsible for supervising the processing, clearance and, in the case of a non-bank broker-dealer, safekeeping of municipal securities (Rule G-27(c)(i)(F)).

It thus appears that the Rule permits the activities of a registered representative to be supervised by various principals. However, this flexibility is significantly curtailed by the way the Amended Rule is currently interpreted by the MSRB. For instance, the Order affirms:

The MSRB states in its response that under current NASD requirements and the MSRB's proposed amendments, dealers must designate one or more appropriately registered

⁸ Rule G-21(f) permits general securities principals to review advertisements relating to municipal securities. In a conversation with you on August 14, 2007, you indicated that the reference in Rule G-27(b)(ii)(C) to Rule G-21(e) was incorrect and that the reference should in fact be to Rule G-21(f).

principals in each OSJ and each such principal must be located on site in each OSJ. The MSRB understands that in the equities market, which is subject to NASD's supervisory requirements, there are many one-person offices which, as OSJs, are involved in structuring corporate financing. The MSRB further understands that such functions, when performed at an OSJ, are significant enough to warrant supervision by an on-site principal who is permanently located in that office. The MSRB concluded that in the case of the one-person OSJ described by Banc of America, the practical effect of the proposed rule change on bank dealers would be to require that one person to be registered as a municipal securities principal, just as NASD requires securities firms to register as a principal any one-person OSJ. The MSRB further noted that the purpose of the proposed rule change is to promote regulatory consistency, and that the MSRB does not believe that the situation described by Banc of America justifies deviating from this purpose.

B. Request for Relief

The MSRB's assertion that it is following the NASD's lead and promoting regulatory consistency does not justify the conclusion that any office that falls within the definition of OSJ merits having a Municipal Securities Principal (or Municipal Fund Securities Principal, as appropriate) in situations where (i) the only reason an office is an OSJ is the Supervision Requirement and (ii) the principals at such OSJs provide the limited supervision described herein. In such circumstances, the burdens imposed on the Firms by layering a second supervisory structure over the NASD's supervisory structure vastly outweighs the minimal benefits that may be achieved in the form of investor protection. The Firms therefore request that the MSRB provide interpretive guidance that the Firms do not need to have a Municipal Securities Principal (or Municipal Fund Securities Principal, as appropriate) in any Field OSJ that falls within the definition of "office of supervisory jurisdiction" in Rule G-27(g)(i) *solely* because of the Supervision Requirement in Rule G-27(g)(i)(G).

As noted above, aside from supervision the Firms' Field OSJs would not engage in any of the other activities listed in Rule G-27(g)(i). This is in large part because the Operational OSJs would be staffed with Municipal Securities Principals and/or Municipal Fund Securities Principals, as appropriate, that review municipal securities transactions, advertisements, complaints and outgoing written (*i.e.*, non-electronic) and electronic correspondence and conduct periodic office inspections, all in accord with the requirements of the Amended Rule. The supervision provided by the Operational OSJs leaves the Field OSJs with responsibility for Limited General Supervision over the registered representatives in their region as described above. This limited level of supervision should not give rise to the obligation to have Municipal Securities Principals (or Municipal Fund Securities Principals) in each Field OSJ.

The Firms note that the plain language of the Amended Rule does not support the position taken by the MSRB that is described in the SEC's Order. In this respect, Subparagraph (b)(ii)(C) of the Amended Rule leads to the opposite conclusion; in listing the various supervisory activities which require a Municipal Securities Principal the MSRB did not include principals located in OSJs. Accordingly, the structure and language of the Amended Rule, along with fundamental principles of rule construction, support the conclusion that principals in OSJs

do not need to be a Municipal Securities Principal (or a Municipal Fund Securities Principal, if appropriate).

Given the experience of the Firms' Field OSJ managers and their Limited General Supervision responsibilities, there is no public policy reason to require such individuals to be registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate). In this respect, we note that the limited functions they carry out do not require expertise in the intricacies of municipal securities – there is absolutely no reason to believe that they will not be just as effective in providing Limited General Supervision over the registered representatives' municipal securities activities as they are with respect to the Firms' other securities activities. Furthermore, it is inconsistent and illogical for the MSRB to permit General Securities Principals to conduct activities such as reviewing and approving municipal securities advertisements, reviewing and approving the opening of customer accounts in which transactions in municipal securities are effected and maintaining books and records relating to municipal securities, and not to permit the Firms' Field OSJ managers to carry out their Limited General Supervision functions unless they are registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate). The Field OSJ managers certainly have the expertise and experience necessary to carry out these responsibilities with respect to municipal securities.

While there would be virtually no additional investor protection afforded to the public by requiring the Firms' Field OSJ managers to be registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate),⁹ the costs of complying with such an interpretation are quite significant. Such costs include initial regulatory exam fees, regulatory exam preparatory classes, the time lost to prepare for the exams, ongoing regulatory exam fees and the logistical and operational costs of getting thousands of managers registered. In addition, limited compliance resources that could otherwise be allocated to address more pressing regulatory issues will need to be devoted to registration efforts.

Section 15B(b)(2)(C) of the Securities Exchange Act of 1934, as amended (“1934 Act”) requires, among other things, that the MSRB’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest. None of these goals will be furthered to any material extent by requiring the Field OSJ Managers to register as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate) because their Limited General Supervision would not be enhanced by having these registrations.¹⁰

⁹ In this respect, the MSRB’s current position does not take account of the number of individuals in or supervised by an OSJ or the level or amount of municipal securities activities carried out at or supervised by an OSJ.

¹⁰ We also note that certain interpretive issues would arise if the MSRB were to decline to provide the interpretive guidance requested herein. For instance, Rule G-21(f) permits General Securities Principals to approve advertisements relating to municipal securities. In situations where a given OSJ conducts the final approval of advertisements (but does not perform any other activity that would cause such office to be an OSJ), it would appear

The Firms also note that under Section 15B(b)(2) of the 1934 Act, the MSRB may only adopt rules that relate to transactions in municipal securities.¹¹ If a given OSJ does not participate in municipal securities transactions or supervise registered representatives involved in such transactions, then the activities and persons located at such office are beyond the jurisdiction of the MSRB. Accordingly, to the extent an OSJ has no involvement in a Firm's municipal securities activities, the language in Rule G-27(b)(iv) requiring an "appropriately registered principals in each office of supervisory jurisdiction" cannot be interpreted to require the OSJ principal to be registered as a Municipal Securities Principal (or Municipal Fund Securities Principal, as appropriate). In this respect, Notice 2006-33 acknowledges the inability of the MSRB to regulate broker-dealers' non-municipal securities activities by stating that "[a]s a general principle, the requirements of Rule G-27 apply only with respect to those registered persons who engage in municipal securities activities and those offices in which such municipal securities activities are undertaken" Furthermore, if a given OSJ does not participate in municipal securities transactions or supervise registered representatives involved in such transactions, then there is no purpose served in requiring a principal located in such office to be registered as a Municipal Securities Principal (or Municipal Fund Securities Principal, as appropriate). Therefore, in addition to the above request, the Firms would like the MSRB to interpret the foregoing phrase in Rule G-27(b)(iv) consistent with the statutory scheme of the 1934 Act and the limitations placed on the MSRB therein and the principle enunciated in Notice 2006-33 and conclude that if an OSJ is not involved in a Firm's municipal securities business, there is no need to have a Municipal Securities Principal (or Municipal Fund Securities Principal, as appropriate) located in such office.

If the MSRB does not provide the interpretive guidance requested by this letter, the Firms respectfully request that the MSRB grant an extension of the requirements in Rule G-27(b)(iv) for fifteen months from the date of the MSRB's decision. In this respect, the Firms note that the first time the MSRB made public its interpretation of the requirements of Rule G-27(b)(iv) was in a letter from the MSRB legal staff to the SEC a few months ago. If the MSRB does not provide the interpretive guidance requested by this letter, it will take the Firms over a year to get their thousands of Field OSJ managers registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate). The overwhelming majority of their Field OSJ managers will not be able to get registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate) by the November 26, 2007 compliance deadline specified in MSRB Notice 2007-16. If the guidance is not granted, the Firms will be forced to either (i) stop almost all sales of municipal securities or (ii) re-characterize their Field OSJs as not being offices of supervisory jurisdiction for purposes of Rule G-27 and replace them with

that Rule G-27(b)(iv) would require, under the MSRB's interpretation of the rule, the principal(s) located at that office to be registered as Municipal Securities Principals (or Municipal Fund Securities Principals, if appropriate). However, since Rule G-21(f) explicitly states that the approval of advertisements can be conducted by a General Securities Principal, there is a question as to which rule should be followed.

¹¹ In discussing the Securities Acts Amendments of 1975, the U.S. Senate Committee on Banking, Housing and Urban Affairs wrote "The sole function and responsibility of the Board would be to prescribe rules for the municipal securities industry and with respect to transactions in municipal securities . . ." S. Rep. No. 94-75, at 114 (1975).

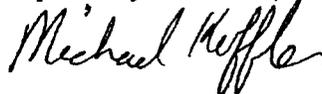
interim supervisory structures and systems in an extremely short time frame. Neither option is in the public's best interest.

The first option would impact the Firms' revenue and would effectively prevent the Firms' customers from purchasing municipal securities or selling municipal securities already purchased through the Firms. In the case of 529 Plans, even if customers were to enter into relationships with other broker-dealers, they might be unable to buy or sell certain 529 Plans available through the Firms if the other broker-dealers do not have selling agreements with the primary distributors of the 529 Plans.

The implications of the latter option are hard to quantify as it would impact virtually every aspect of the Firms' supervisory systems, including chains of supervision, work flow and paper flow, policies, procedures, manuals, technology systems, and compensation systems, among other things. We also note that any supervision over the Firms' registered representatives under such a scenario would be conducted by far fewer principals than currently supervise the registered representatives and by principals who are neither in close proximity to, nor familiar with the municipal securities activities of, the registered representatives. Such an upheaval would not be in the public's best interests and would certainly not further investor protection. As a result, a reasonable amount of time to transition to the new requirements is necessary if the MSRB were to refuse to grant the interpretive guidance requested in this letter. The Firms believe that given the numbers and logistics involved a fifteen month extension is needed to comply with the Amended Rule.

I would be more than happy to meet with members of the MSRB or its legal staff to discuss the request for interpretive relief and the issues raised herein. Please do not hesitate to call me with any questions at (202) 383-0106.

Respectfully submitted,



Michael Koffler