

MSRB REPORTS

Volume 1, Number 2

Municipal Securities Rulemaking Board

August 1981

Donald J. Robinson Approved to Fill Vacant Board Seat

The SEC approved the election of Donald J. Robinson of Hawkins, Delafield & Wood to fill the seat on the Board vacated by James V. Young, who resigned from the Board in February of this year. Mr. Robinson will serve on the MSRB until September 30, 1982.

Mr. Robinson is a municipal bond attorney and has been a partner of Hawkins, Delafield & Wood since 1969. His involvement with municipal finance and municipal securities markets is extensive, including serving as Chairman of the Municipal Finance Officers Association Committee for *Revisions of Disclosure Guidelines for Offerings of Securities by State and Local Governments*.

In This Issue

The SEC has approved amendments to the close-out procedure provisions of rule G-12. This issue of *MSRB Reports* contains the amended close-out procedures and a notice which sets forth the manner in which these new procedures will be implemented. The Board has scheduled educational seminars in New York and Chicago in order to review the amended close-out procedures with any interested persons. Also to be found in this issue are notices concerning proposed amendments to rule G-11 concerning terms and conditions for sales of new issue municipal securities during the underwriting period, approval of amendments conforming various rules to previously approved amendments to rule G-3, and withdrawal of draft amendments regarding lien restrictions. The contents are:

- **Questions and Answers**
Blanket Consent From an Issuer under
Rule G-23
- **Rule G-11**
Proposed Amendments Filed

- **Close-Out Procedures**
Approved Amendments to Close-Out Procedures
Implementation of Amendments to Close-Out
Procedures
Schedule of Educational Seminars on
Close-Out Procedures
- **Qualifications**
Conforming Amendments Regarding Municipal
Securities Sales Principal
- **Rules G-12 and G-15**
Draft Amendments Regarding Lien Restrictions
Withdrawn

September-October

- **September 10**—New York educational seminar on close-out procedure amendments
- **September 14**—effective date of close-out amendments
- **September 15**—Chicago educational seminar on close-out procedure amendments
- **October 1**—effective date of yield disclosure amendment to rule G-15
- **Pending**—start-up date for the General Securities Sales Supervisor Examination (Test Series 8)
 - SEC approval of rule G-12 amendments facilitating clearing through registered clearing agencies
 - SEC approval of rule G-12 amendments to reclamation provisions

Five New Board Members Elected to Three-Year Terms

The Board is pleased to announce the election of five new Board members to serve three-year terms beginning October 1, 1981. The individuals chosen by the Board are:

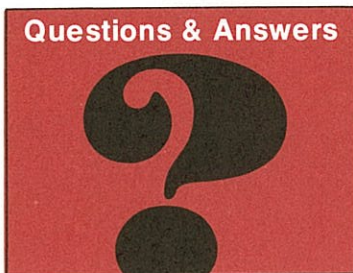
Robert P. Beshar—an attorney in private practice involved in litigation relating to information technologies and data processing—will serve as an investor representative.

Bernard R. Bober—Chairman of Ehrlich-Bober & Co., Inc., served as vice chairman of NASD District 12 Business Conduct Committee.

Arthur T. Cooke, Jr.—senior vice president of the Bank of America and member of the Executive Committee of the California Taxpayers Foundation.

Mary Des Roches—Comptroller-Treasurer of the City of Minneapolis and vice chairperson of the National Debt and Fiscal Policy Committee of the MFOA—will serve as representative of issuers.

Michael D. Vick—President of M.B. Vick & Company, served on the Board's Professional Qualifications Advisory Committee.



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other _____

Rule G-23

Blanket Consent From an Issuer

Q: Under the provisions of MSRB Rule G-23(d)(ii), a broker-dealer which functions as a financial advisor may not purchase a new issue to be sold at competitive bid unless the issuer has expressly consented to such in writing prior to the bid. I would appreciate knowing whether, in the opinion of the Board, it would be consistent with the provisions of Rule G-23 for an issuer to grant to a financial advisor such approval prospectively for any and all new issues of municipal securities which it may sell on a competitive basis at some future date.

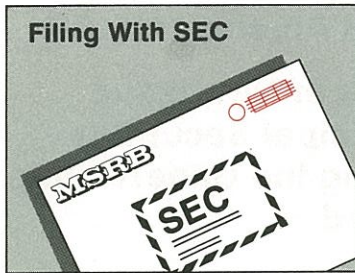
A: Rule G-23(d)(ii) provides that a municipal securities dealer which is acting as a financial advisor

may not acquire or participate in the distribution of a new issue unless

if such issue is to be sold by the issuer at competitive bid the issuer has consented in writing to such acquisition or participation.

The rule is designed to minimize the potential conflict of interest that exists when a municipal securities professional acts as both financial advisor and underwriter with respect to the same issue. Rule G-23(d) speaks in terms of "a new issue" and the implication is that consent should be obtained on an issue-by-issue basis.

The Board believes that such a reading of the rule is consistent with the rule's rationale—that an issuer should have an opportunity to consider whether, under the particular circumstances of an offering, the financial advisor's potential conflict of interest is sufficient to warrant not consenting to its participation in the sale. The Board has concluded that an unrestricted consent would not afford an issuer such an opportunity and, accordingly, has determined that such a consent would not satisfy the requirements of rule G-23(d)(ii).



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other _____

Rule G-11

Proposed Amendments Filed

On July 17, 1981, the Board filed with the Securities and Exchange Commission proposed amendments to Board rule G-11 which would significantly modify the current requirements. Rule G-11 prescribes terms and conditions for sales of new issue municipal securities during the underwriting period. The proposed amendments would

- require that within 10 days from the date of sale syndicate managers disclose to members certain written information concerning the allocation of securities to related portfolio and group orders as well as to other priority orders;
- relieve syndicate managers of their obligation, under current provisions of rule G-11, to provide information to members about related portfolio and group orders to which securities had not been allocated; and
- require that syndicate managers include in the settlement statement a summary showing the aggregate par values and prices (expressed in terms of dollar prices or yields) of all securities sold from the syndicate account.

The proposed amendments were originally issued for comment in exposure draft form on December 9, 1980. The text of the proposed amendments, which are discussed more fully below, follows this notice, as do examples of the disclosures called for by the proposed amendments.

Disclosure of the Allocation of Securities

Rule G-11 currently requires that each syndicate formed for the distribution of new issue securities establish a set of priorities for the allocation of securities to different categories of orders received by the syndicate and, if such priorities may be changed, the procedure for making changes. The syndicate manager must furnish written information concerning this set of priorities to other members of the syndicate and, if requested, to non-member dealers and members of the public. The rule requires the disclosure to the syndicate manager of certain information concerning orders placed by a municipal securities dealer for a related portfolio, a municipal securities investment trust sponsored by the dealer, or an accumulation account established in connection therewith (hereafter referred to generally as "related portfolios"), including the identity of the related portfolio for whom

the order is placed. Dealers also must disclose to the syndicate manager certain information concerning any group order placed, including the name of the customer. The rule requires that the syndicate manager, in turn, disclose information about related portfolio and group orders promptly to any member of the syndicate who requests it. The disclosure provisions of rule G-11 are intended, among other matters: to enable syndicates to make more informed decisions in allocating securities among prospective purchasers; to provide prospective purchasers with sufficient information about the priority provisions so that they may frame their orders to the syndicate in a manner that enhances their ability to obtain securities; and to render syndicate managers accountable for following the allocation procedures adopted by the syndicate.

Questions or comments concerning the amendments should be directed to Richard B. Nesson, General Counsel.

Based upon its extensive evaluation of the operation of rule G-11, the Board has determined to amend the rule to require the disclosure of information which will better enable syndicate members and their customers to determine whether securities have been allocated in accordance with the established priorities and to provide that such information be furnished to syndicate members in a systematic and timely manner.

The proposed rule changes would require that within 10 days from the date of sale, as that term is defined in the rule, syndicate managers must disclose to members certain information concerning related portfolio and group orders to which securities had been allocated, including the identity of the customer. The disclosure would be required with respect to all such orders received through the end of the order period. This information, rather than being provided only to those syndicate members who request it, would be furnished to all members in writing. In addition, syndicate managers would be relieved from the obligation to provide information concerning related portfolio and group orders to which secu-

rities had not been allocated. The proposed rule changes also would require that within 10 days from the date of sale, syndicate managers provide in summary form certain information concerning allocations to other orders which, under the priority provisions adopted by the syndicate, were entitled to a higher priority than a member's "take down" order, including allocations to any such order confirmed at a price other than the original list price.

The Board believes that a requirement to disclose allocations in writing to all members would help to assure that allocations are, in fact, made according to the established priorities. Further, the information is of sufficient importance that it should be provided as a matter of course to all participants in an underwriting venture. With respect to the proposal to require that such information be provided within 10 days from the date of sale, rather than a later time, the Board believes that a syndicate member who concludes, based upon allocation information available shortly after the date of sale, that an improper allocation was made may be in a better position to obtain some remedial relief for its customer from the manager. Further, in the Board's view, group orders belong to all members of the syndicate and, accordingly, information with respect to allocations to such orders should be available to all members while such information still has market value. The Board notes that the proposed time period would provide greater certainty than the "promptly" standard of the current rule.*

Disclosure of Additional Syndicate Accounting Information

Rule G-12(j) requires that settlement of a syndicate account and distribution of any profit due to members be made within 60 days of delivery of the syndicate's securities. Rule G-11 (g) requires, among other matters, that syndicate managers provide to members at the time of settlement of a syndicate account a detailed statement of the expenses incurred by the syndicate. The Board is concerned that, under the current rules, there is no requirement to furnish information that would enable syndicate members to verify the syndicate accounting of revenues. Accordingly, the Board has amended rule G-11 (g) to require that syndicate managers include in the settlement statement a summary showing the aggregate par values and prices of all securities sold from the syndicate account.** For purposes of this disclosure, "prices" could be expressed in terms of either dollar prices or yields.

The proposed amendments will not become effective unless approved by the Commission. The Board has requested that the Commission delay the effectiveness of the amendments for 30 days following the date of their approval.

Text of Proposed Amendments***

Rule G-11. Sales of New Issue Municipal Securities During the Underwriting Period

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

(i) The term "accumulation account" means an account established in connection with a municipal securities investment trust to hold securities pending their deposit in such trust.

(ii) The term "date of sale" means, in the case of competitive sales, the date on which all bids for the purchase of securities must be submitted to an issuer, and, in the case of negotiated sales, the date on which the contract to purchase securities from an issuer is executed.

~~(ii)-(iii)~~ The term "group order" means an order for securities held in syndicate, which order is for the account of all members of the syndicate on a pro-rata basis in proportion to their respective participations in the syndicate. Any such order submitted directly to the senior syndicate manager will, for purposes of this rule, be deemed to be the submission of such order by such manager to the syndicate.

~~(iii)-(iv)~~ The term "municipal securities investment trust" means a unit investment trust, as defined in the Investment Company Act of 1940, the portfolio of which consists in whole or in part of municipal securities.

~~(iv)-(v)~~ The term "order period" means the period of time, if any, announced by a syndicate during which orders will be solicited for the purchase of securities held in syndicate.

(vi) The term "priority provisions" means the provisions adopted by a syndicate governing the allocation of securities to different categories of orders.

~~(v)-(vii)~~ The term "related portfolio," when used with respect to a municipal securities dealer, means a municipal securities investment portfolio of such municipal securities dealer or of any person directly or indirectly controlling, controlled by or under common control with such municipal securities dealer.

~~(vi)-(viii)~~ The term "syndicate" means an account formed by two or more persons for the purpose of purchasing, directly or indirectly, all or any part of a new issue of municipal securities from the issuer, and making a distribution thereof.

~~(vii)-(ix)~~ The term "underwriting period" means the period commencing with the first submission to a syn-

*Certain mailing costs associated with this proposal could be minimized by incorporating the allocation information into other communications which syndicate managers ordinarily send to members within the 10-day period. The Board notes that syndicate managers normally send out to syndicate members shortly after the date of sale a "release letter" which confirms the terms of the syndicate and the members' respective participations. The Board suggests that the allocation disclosure could be incorporated easily into such "release letters." An example of a "release letter" containing such disclosure is attached as Exhibit A.

**An example of a settlement statement containing such a summary is attached as Exhibit B.

***Underlining indicates new language; material which is lined through has been deleted.

dicade of an order for the purchase of new issue municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending at such time as the issuer delivers the securities to the syndicate or the syndicate no longer retains an unsold balance of securities, whichever last occurs.

(b) Disclosure of Capacity. Every municipal securities dealer that submits an order to a syndicate or to a member of a syndicate for the purchase of municipal securities held by the syndicate shall disclose at the time of submission of such order if the securities are being purchased for its dealer account, for the account of a related portfolio of such municipal securities dealer, for a municipal securities investment trust sponsored by such municipal securities dealer, or for an accumulation account established in connection with such a municipal securities investment trust. ~~The senior syndicate manager shall promptly disclose to the other members of the syndicate, upon request made prior to final settlement of the syndicate account, each order submitted for such a related portfolio, municipal securities investment trust or accumulation account, indicating the identity of the related portfolio, municipal securities investment trust, or accumulation account, the aggregate face amount of each maturity and the maturity dates of the securities which are the subject of the order.~~

(c) No change.

(d) Disclosure of Group Orders. Every municipal securities dealer that submits a group order to a syndicate or to a member of a syndicate, shall disclose at the time of submission of such order the identity of the person for whom the order is submitted. ~~The senior syndicate manager shall promptly disclose to the other members of the syndicate, upon request made prior to final settlement of the syndicate account, each group order, indicating the identity of the person for whom the order is submitted, the aggregate face amount of each maturity and the maturity dates of the securities which are the subject of the order.~~

(e) Priority of Orders Provisions. Every syndicate shall establish the priority to be accorded to different types of orders for the purchase of securities from the syndicate during the underwriting period priority provisions and, if such priority provisions may be changed, the procedure for making changes. For purposes of this rule, the requirement to establish priority provisions shall not be satisfied if a syndicate provides only that the syndicate manager or managers may determine in the manager's or managers' discretion the priority to be accorded different types of orders. Notwithstanding the preceding sentence, a syndicate may include a provision permitting the syndicate manager or managers on a case-by-case basis to allocate securities in a manner other than in accordance with the agreed upon order of priority provisions, if the syndicate manager or managers determine in its or their discretion that it is in the best interests of the syndicate. In the event any such allocation is made, the syndicate manager or managers shall have the burden of justifying that such allocation was in the best interests of the syndicate.

(f) Communications Relating to Priority of Orders Provisions and Order Period. Prior to the first offer of any securities by a syndicate, the senior syndicate manager shall furnish in writing to the other members of the syndicate (i) the priority to be accorded to different types of orders for securities to be distributed by the syndicate provisions, (ii) the procedure, if any, by which such priority provisions may be changed, (iii) if the senior syndicate manager or managers are to be permitted on a case-by-case basis to allocate securities in a manner other than in accordance with the agreed upon order of priority provisions, the fact that they are to be permitted to do so, and (iv) if there is to be an order period, whether orders may be confirmed prior to the end of the order period. Any change in the priority provisions governing the priority of orders shall be promptly furnished in writing by the senior syndicate manager to the other members of the syndicate. Syndicate members shall promptly furnish in writing the information described in this section to others, upon request.

(g) Disclosure of Allocation of Securities. The senior syndicate manager shall, within ten business days following the date of sale, disclose to the other members of the syndicate, in writing, the following information concerning the allocation of securities to orders submitted through the end of the order period or, if the syndicate does not have an order period, through the first business day following the date of sale:

(i) the identity of each related portfolio, municipal securities investment trust, or accumulation account referred to in section (b) above submitting an order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated;

(ii) the identity of each person submitting a group order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated; and

(iii) a summary, by priority category, of the allocation of securities to other orders which, under the priority provisions, were entitled to a higher priority than a member's "take down" order, including any order confirmed at a price other than the original list price, indicating the aggregate par value and maturity date of each maturity so allocated.

(g) (h) Disclosure of Syndicate Expenses and Other Information. At or before the final settlement of a syndicate account, the senior syndicate manager shall furnish to the other members of the syndicate:

(i) an itemized statement setting forth the nature and amounts of all actual expenses incurred on behalf of the syndicate. Notwithstanding the foregoing, any such statement may include an item for miscellaneous expenses, provided that the amount shown under such item is not disproportionately large in relation to other items of expense shown on the statement and includes only minor items of expense which cannot be easily categorized elsewhere in the statement. Discretionary fees for clearance costs to be imposed by a syndicate

manager and management fees shall be disclosed to syndicate members prior to the submission of a bid, in the case of a competitive sale, or prior to the execution of a purchase contract with the issuer, in the case of a negotiated sale. For purposes of this section, the term "management fees" shall include, in addition to amounts categorized as management fees by the syndicate manager, any amount to be realized by a syndicate manager and not shared with the other members

of the syndicate, which is attributable to the difference in price to be paid to an issuer for the purchase of a new issue of municipal securities and the price at which such securities are to be delivered by the syndicate manager to the members of the syndicate; and

(ii) a summary statement showing the aggregate par values and prices (expressed in terms of dollar prices or yields) of all securities sold from the syndicate account.

Dealer B
Dealer C
Bank D
Bank E

EXHIBIT A

Re: \$5,725,000 Gotham City G.O. Bonds

Account Members:

Our account has purchased the above issue at a net interest rate of 7.3104%. Coupon rates are 7.50% in 1982/84; 7.00% in 1985/90; 6.60% in 1991; 6.75% in 1992; 6.90% in 1993; 7.00% in 1994; 7.10% in 1995; 7.25% in 1996; 7.40% in 1997; 7.60% in 1998; 7.75% in 1999; 6.90% in 2000; and 8.00% in 2001. Our purchase price is 100.00. Gotham National Bank was named paying agent for the issue.

Our gross profit is approximately \$19.90 per bond. The account's expenses will include a 40 cents per bond clearance fee. The account is undivided as to liability and as to selling. Take-downs and concessions are as follows:

Maturity	Take-down	Concession
1982/88	3/4	1/4
1989/94	7/8	3/8
1995/01	1	1/2

[Disclosure of Allocations to Group and Related Portfolio Orders—Proposed Rule G-11 (g) (i) and (ii)]

For joint account benefit, the bonds due in 1982 were sold to Gotham City Bank and Trust at original list net; bonds in 1986 were sold to Gotham Insurance Corp. at original list less 1/4% and \$200,000 bonds in 1989 were sold to Dealer C Bond Fund at original list less 3/8%.

The bonds in 1995 through 2001 were sold to the Gotham Casualty Company at adjusted yields of 7.40%, 7.50%, 7.60%, 7.70%, 7.80%, 7.90%, 8.00%, consecutively, which represents an average dollar price of 98.815.

[Disclosure of Allocation, by Priority Category, to Other Orders—Proposed Rule G-11 (g) (iii)]

Two blocks of bonds due in 1983, one of \$100,000 and the other of \$160,000, as well as all the bonds due in 1984 were taken out of the account at original list, with the concessions designated to certain account members.

We deposited a check in the amount of \$57,250.00 with the bid and will charge the account at the prime interest rate on this amount for the period it is outstanding.

It is a pleasure to be associated with you in this underwriting.

Very truly yours,

Public Finance Department
Dealer A

EXHIBIT B

**\$5,725,000
GOTHAM CITY GENERAL OBLIGATION BONDS**

Proceeds from Sale of Bonds	\$ x,xxx,xxx	
Cost of Bonds	5,725,000.	
Gross Profit	\$ xx,xxx	

Expenses

\$ _____

\$xx,xxx

Syndicate Members	Participation	
Dealer A	\$1,145,000	\$ x,xxx
Dealer B	1,145,000	x,xxx
Dealer C	1,145,000	x,xxx
Bank D	1,145,000	x,xxx
Bank E	1,145,000	x,xxx
	\$5,725,000	\$xx,xxx

[Syndicate Accounting Information—Proposed rule G-11 (h) (ii)]

Bonds Were Sold From the Account as Follows:

- 280,000 at original list net
- 760,000 at original list less 1/4%
- 200,000 at original list less 3/8%
- 620,000 at original list less 3/4%
- 200,000 at down .10 less 3/4%
- 1,490,000 at original list less 7/8%
- 2,075,000 at 98.815



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other _____

Rule G-12

Approved Amendments to Close-Out Procedures

On July 31, 1981, the Securities and Exchange Commission approved certain amendments to the provisions of rule G-12(h) concerning close-outs of uncompleted transactions between municipal securities brokers and dealers. The amendments significantly revise these procedures, particularly for a close-out by a purchasing dealer, in order to simplify the close-out process and foster its use to facilitate deliveries. *The amendments were approved for a delayed effective date of September 14, 1981; dealers should continue to use the previously-existing close-out procedures until that time.* Detailed instructions concerning the transition from the existing procedure for close-out by a purchaser to the procedure established under the amendments are set forth in an "Implementation of Amendments to Close-Out Procedures" being issued by the Board concurrently with this notice; dealers involved in a close-out procedure on the September 14, 1981 effective date should consult the notice on implementation for instructions on completion of the procedure.

The Board has completed a revised edition of the *Manual on Close-Out Procedures*. A copy of the revised *Manual* will be mailed during the week of August 24 to each municipal securities broker and municipal securities dealer registered with the Board; additional copies may be ordered from the Board's offices.

The Board is also planning to hold educational seminars on the new close-out procedures in New York on September 10 and in Chicago on September 15. Details concerning these meetings are listed opposite.

Set forth below is a review of the amended procedure for close-out by a purchasing dealer.* The text of the amended rule is attached to this notice. Also attached is

a chart showing the comparison between the procedure for close-outs by purchasers under the amended rule and that under the previously-existing provisions.

* * *

A purchasing dealer who has not received delivery on a transaction may initiate a close-out procedure on such transaction on or after the fifth business day after the settlement date of the transaction. The purchasing dealer may initiate the close-out by telephoning the selling dealer and advising it that the purchaser intends to close out the transaction if the securities are not received by a specified delivery deadline (which may not be before the close of business on the tenth business day after the telephone call, in the case of a first notice, or the close of business on the fifth business day after the call, in the case of a second or subsequent notice). The purchaser must also specify the period during which it may execute the close-out, which period cannot be longer than five

Schedule of Educational Seminars on Close-Out Procedures

Thursday, September 10, 1981 New York

Place: Chase Manhattan Bank
Auditorium A, 1 Chase Manhattan Plaza
Time: 1:30 p.m.—5:30 p.m.

Tuesday, September 15, 1981 Chicago

Place: First National Bank of Chicago
13th Floor Conference Room,
One First National Plaza
Time: 1:30 p.m.—5:30 p.m.

There will be no fee charged for attendance at these seminars, and any individual in your organization is welcome. We would appreciate it if you would telephone the Board's office at (202) 223-9347 to inform us of the number of individuals who will be attending from your organization.

Questions concerning the amendments may be directed to Donald F. Donahue, Deputy Executive Director.

*The procedure is set forth here in summary form; reference should be made to the text of the rule for the details of the procedure.

Certain changes to the procedure for close-out by a selling dealer were included in the approved amendments. Since these amendments affect only details of the "sell-out" procedure, and its basic structure remains unchanged, this notice will not review it. The changes to the "sell-out" procedure are indicated in the attached rule text.

Comparison of Amended and Previously-Existing Procedure for Close-Outs by Purchasers*

AMENDED RULE

PREVIOUSLY-EXISTING RULE

INITIATION

Purchaser can initiate:

- by telephone call
- not earlier than fifth business day post settlement
- specifying a deadline for delivery of the securities not earlier than the close of business on the tenth business day after the telephone notice (the fifth business day, on a second or later notice)
- and specifying a period of not longer than five business days for execution of the notice

The purchaser must confirm the notice in writing:

- sent by the next business day
- and containing certain specified identification information

RETRANSMITTAL

If the seller is failing to receive the securities from another dealer it may retransmit the notice to the other dealer

The retransmitting party must give the notice of retransmittal by telephone by the close of business of the day following such party's receipt of telephone notice from the prior party. The retransmitting party must confirm such notice in writing by the following business day

The written notice of retransmittal must contain certain specified information

The first retransmittal will extend the dates for close-out by five business days. The dates for close-out are not extended by retransmittals after the first retransmittal

The first retransmitting party must advise the originator of the notice (by telephone and in writing) of the extended dates due to its retransmittal. Subsequent retransmitting parties must advise the originator of the fact of their retransmittal (and forward a copy of the retransmittal notice)

The written notice of extended dates sent by the first retransmitting party must contain certain specified information

EXECUTION

After the deadline for delivery passes, the purchaser may execute the close-out

The purchaser may close out the transaction by using one of the following methods:

- (a) buy-in
- (b) substitution
- (c) repurchase

Purchaser can initiate:

- [same]
- [same]
- specifying a deadline for delivery of the securities not earlier than the close of business on the fifth business day after the telephone notice

[same]

The purchaser must confirm the notice in writing:

- [same]
- [no comparable provision]

[same]

The notice of retransmittal must be received in writing by the other dealer not later than one business day prior to the execution date specified on the notice

[no comparable provision]

Each retransmittal after the first retransmittal will extend the dates for close-out by one business day

Each retransmitting party must advise the originator of the notice (by telephone and in writing) of any extended date due to its retransmittal

[no comparable provision]

[same]

The purchaser may close out the transaction by:

- (a) buy-in
- (b) cancellation
- (c) substitution
- (d) repurchase

*The close-out procedures are presented here in outline form; reference should be made to the amended rule text for a more detailed description. Aspects of the previously-existing rule which were eliminated by the amendments, such as the time extension provided the seller in the event it has a satisfactory explanation for its failure to deliver, are not included in this chart.

The purchaser executing a close-out must notify the seller by telephone of the execution. Written confirmation of such notice must be sent by the following business day

Moneys due on the close-out, or the closed-out transaction(s), must be sent to the appropriate party within ten business days of the execution date

COMPLETION OF TRANSACTION

If, prior to the execution of the close-out, the seller determines that it can complete the transaction, it may "freeze" execution of the close-out by giving notice of impending delivery.

Upon receipt of such notice, the purchaser may not execute the close-out for two business days following the date of the notice

CLOSE-OUT NOT COMPLETED

If the close-out is not executed during the time period specified on the notice (or extended as provided), the notice lapses

The purchaser may issue additional notices on the transaction

A purchaser may not initiate a close-out notice on a transaction after the ninetieth (90) business day after the settlement date. Close-out activity may be completed after the ninetieth day in accordance with the terms of an outstanding close-out notice.

The purchaser executing a close-out must notify the seller of the execution in writing, with the written notice received on the same day

[no comparable provision]

[same]

Upon receipt of such notice, the purchaser may not execute the close-out for one business day following the date of the notice

[same]

[same]

All close-out activity must be completed by the ninetieth (90) business day after the settlement date

business days. The purchaser must confirm this telephone notice of close-out in writing, sent return receipt requested within one business day of the call; this written notice must contain certain items of information, specified in the rule.

If the selling dealer receiving the notice has an offsetting fail to receive from another dealer, the seller may retransmit the close-out to such other dealer. The seller must advise such other dealer by telephone of its intention to retransmit the notice by not later than the business day following the day on which the seller received the telephone notice of close-out. The telephone notification of the retransmittal must be confirmed in writing; the written retransmittal notice must contain certain specified information (itemized in the rule) and must be sent, return receipt requested, not later than the business day following the date of the telephone notification of the retransmittal.

If the selling dealer retransmits the close-out, the dates specified for the delivery of the subject securities and the execution period of the close-out are delayed by five business days. *This is the only major time extension provided under the new procedure.* Therefore, if the purchasing dealer originating the close-out had specified the tenth business day after settlement as the delivery deadline, and the eleventh to the fifteenth business days after settlement as the execution period, a retransmittal would extend those dates to the fifteenth business day, for the delivery deadline, and the sixteenth to the twentieth business days, as the execution period. The selling dealer

retransmitting the close-out notice must advise the dealer originating the notice of this extension of dates by telephone and in writing; the rule contains specific requirements governing the content of this written notice as well.

A party subsequently receiving a retransmitted notice of close-out may also retransmit such notice on an offsetting fail to receive of the subject securities. Such subsequent retransmittal must also be accomplished by telephone within one business day of receipt of the preceding retransmittal, and must be confirmed in a written notice meeting the content requirements of the rule. The subsequent retransmittal does not give rise to any time extension—the time periods remain as established by the first retransmittal. A subsequent retransmitting dealer must, however, advise the dealer originating the close-out of its retransmittal, both by telephone and by forwarding to the originating dealer a photocopy of its retransmittal notice.

The originating dealer may execute a close-out notice by selecting one of three options: a "buy-in," a negotiated substitution, or a mandatory repurchase. The dealer must advise the selling dealer (to whom it issued the notice) by telephone of the terms of the execution transaction immediately after executing the close-out, and must confirm that notification in writing within one business day. Any retransmitting dealer must retransmit this notification of the terms of the execution by telephone on the date of the execution, and send written notice of the execution within one business day. Moneys due on close-outs and closed-out transactions must be sent within ten business days of the execution date.

If, prior to the execution of a close-out, the selling dealer determines that it can make delivery of the subject securities within two business days, and so advises the purchasing dealer originating the close-out, the purchasing dealer may not execute the close-out for two business days. The period originally specified for the execution of the close-out shall be extended by two business days (by three business days, in the event the notice of impending delivery is given on the last day originally specified for the execution period).

No close-out notice may be issued with respect to a transaction after the ninetieth (90) business day following the settlement date of the transaction.

Text of Amended Provisions*

(h) Close-Out. Transactions which have been confirmed or otherwise agreed upon by both parties but which have not been completed may be closed out in accordance with this section, or as otherwise agreed by the parties.

(i) Close-Out by Purchaser. With respect to a transaction which has not been completed by the seller according to its terms and the requirements of this rule, the purchaser may close out the transaction in accordance with the following procedures:

(A) Notice of Close-Out. If the purchaser elects to close out a transaction in accordance with this paragraph (i), the purchaser shall, not earlier than the fifth business day following the settlement date, notify the seller by telephone of the purchaser's intention to close out the transaction. The purchaser shall state that unless the transaction is completed by a specified date and time, which shall not be earlier than the close of the tenth business day following the date the telephonic notice is given (the fifth business day, in the case of a second or subsequent notice), the transaction may be closed out in accordance with this section at any time during the period of time, which shall not be more than five business days, specified by the purchaser for such purpose. The purchaser shall immediately thereafter send, return receipt requested, a written notice of close-out to the seller. Such notice shall contain the information specified in item (1) of subparagraph (C) below, and shall be accompanied by a copy of the seller's confirmation of the transaction to be closed out or other written evidence of the contract between the parties.

(B) Retransmittal. Any party receiving a notice of close-out may retransmit the notice to another party from whom the securities are due. The retransmitting party shall, not later than the first business day following its receipt of the telephone notice of close-out, notify the party to whom it is retransmitting by telephone of its intention to retransmit such notice, specifying the name of the originator and the applicable dates for delivery and effectiveness of the notice. The

retransmitting party shall immediately thereafter send, return receipt requested, a written notice of retransmittal which shall contain the information specified in item (2) of subparagraph (C) below. The first such retransmittal shall extend the dates for close-out by five business days, and the first retransmitting party shall specify the extended dates on its notice of retransmittal. The first retransmitting party shall, on the date telephone notice of the retransmittal is given, notify the purchaser originating the notice by telephone of the extended dates and immediately thereafter send, return receipt requested, a notice of extension of dates which shall contain the information specified in item (3) of subparagraph (C) below. Any party subsequently retransmitting such notice shall, on the date telephonic notice of the retransmittal is given, notify the purchaser originating the notice by telephone of such retransmittal, and immediately thereafter send a copy of the retransmittal notice to such originating purchaser.

(C) Contents of Notices. Written notices sent in accordance with the requirements of subparagraphs (A) or (B) above shall contain the following information:

(1) The notice of close-out required under subparagraph (A) above shall set forth:

(a) the name and address of the municipal securities broker or dealer originating the notice;

(b) the name and address of the municipal securities broker or dealer to whom the notice is being sent;

(c) the name of the person to whom the originator provided the required telephonic notice;

(d) the date of such telephonic notice;

(e) the par value and description of the securities involved in the transaction with respect to which the close-out notice is given;

(f) the trade date and settlement date of the transaction;

(g) the price and total dollar amount of the transaction;

(h) the date by which the securities must be received by the originating dealer;

(i) the date or dates during which the notice of close-out may be executed; and

(j) the name and telephone number of the person to contact concerning the close-out.

(2) The notice of retransmittal required under subparagraph (B) above shall set forth:

(a) the name and address of the municipal securities broker or dealer retransmitting the notice;

(b) the name and address of the municipal securities broker or dealer to whom the notice is being retransmitted;

(c) the name of the municipal securities broker or dealer originating the notice;

(d) the name of the person to whom the retransmitting party provided the required telephonic notice;

(e) the date of such telephonic notice;

*Underlining indicates new language. For purposes of clarity the close-out provisions are set forth as amended; the portions of the previously-existing rule which were deleted by the amendments are not included in the text presented here.

(f) the par value and description of the securities involved in the transaction with respect to which the retransmittal notice is given;

(g) the trade date and settlement date of the transaction;

(h) the price and total dollar amount of the transaction;

(i) the date by which the securities must be received by the dealer originating the notice (as extended due to the retransmittal);

(j) the date or dates during which the notice of close-out may be executed (as extended due to the retransmittal); and

(k) the name and telephone number of the person to contact concerning the retransmittal.

(3) The notice of extension of dates required under subparagraph (B) above shall set forth:

(a) the name and address of the municipal securities broker or dealer originating the notice of close-out;

(b) the name and address of the municipal securities broker or dealer retransmitting the notice;

(c) the name of the municipal securities broker or dealer to whom the notice is being retransmitted;

(d) the name of the person to whom the retransmitting party provided the required telephonic notice of the extension of dates;

(e) the date of such telephonic notice;

(f) the par value and description of the securities involved in the transaction with respect to which the notice is given;

(g) the date specified by the originating dealer as the date by which delivery of such securities must be made;

(h) the date by which such delivery must be made, as extended due to the retransmittal;

(i) the effective date or dates for the notice of close-out, as extended due to the retransmittal; and

(j) the name and telephone number of the person to contact concerning the close-out.

(D) Purchaser's Options. If the securities described in the notice of close-out are not delivered to the originating purchaser by the date specified in the original notice, or the extended date resulting from a retransmittal, such purchaser may close out the transaction in accordance with the terms of the notice. To close out a transaction as provided herein the purchaser may, at its option, take one of the following actions:

(1) purchase ("buy-in") at the current market all or any part of the securities necessary to complete the transaction, for the account and liability of the seller;

(2) accept from the seller in satisfaction of the seller's obligation under the original contract (which shall be concurrently cancelled) the delivery of municipal securities which are comparable to those originally bought in quantity, quality, yield or price, and maturity, with any additional expenses or any additional cost of acquiring such substituted securities being borne by the seller; or

(3) require the seller to repurchase the securities on terms which provide that the seller pay an amount

which includes accrued interest and bear the burden of any change in market price or yield.

A purchaser executing a close-out shall, upon execution, notify the selling dealer for whose account and liability the transaction was closed out by telephone, stating the means of close-out utilized. The purchaser shall immediately thereafter confirm such notice in writing, sent return receipt requested, and forward a copy of the confirmation of the executed transaction. A retransmitting party shall give immediate notice of the execution of the close-out, in accordance with the procedure set forth herein, to the party to whom it retransmitted the notice. A close-out will operate to close out all transactions covered under retransmitted notices. Any moneys due on the transaction, or on the close-out of the transaction, shall be forwarded to the appropriate party within ten business days of the date of execution of the close-out notice. A buy-in may be executed from a long position in customers' accounts maintained with the party executing the buy-in or, with the agreement of the seller, from the purchaser's contra-party. In all cases, the purchaser must be prepared to defend the price at which the close-out is executed relative to market conditions at the time of the execution.

(E) Close-Out Not Completed. If a close-out pursuant to a notice of close-out is not completed in accordance with the terms of the notice and the provisions of this rule, the notice shall expire. Additional close-out notices may be issued, provided that a close-out procedure with respect to the transaction may not be initiated later than the ninetieth business day following the settlement date of such transaction, regardless of the number of close-out notices issued.

(F) Completion of Transaction. If, at any time prior to the execution of a close-out pursuant to this paragraph (i), the seller, or any subsequent selling party to whom a notice has been retransmitted, can complete the transaction within two business days, such party shall give immediate notice to the purchaser originating the notice of close-out that the securities will be delivered within such time period. If the originating purchaser receives such notice, it shall not execute the close-out for two business days following the date of such notice; the period specified for the execution of the close-out shall be extended by two business days or, in the event that the notice is given on the last day specified for execution of the close-out, by three business days. Delivery of the securities in accordance with such notice shall cancel the close-out notice outstanding with respect to the transaction.

(G) "Cash" Transactions. The purchaser may close out transactions made for "cash" or made for or amended to include guaranteed delivery at the close of business on the day delivery is due.

(ii) Close-Out by Seller. If a seller makes good delivery according to the terms of the transaction and the requirements of this rule and the purchaser rejects delivery, the seller may close out the transaction in accordance with the following procedures:

(A) Notice of Close-Out. If the seller elects to close out a transaction in accordance with this paragraph (ii),

the seller shall at any time not later than the close of business on the fifth business day following receipt by the seller of notice of the rejection, notify the purchaser by telephone of the seller's intention to close out the transaction. The seller shall state that unless the transaction is completed by a specified date and time, which shall not be earlier than the close of the business day following the date the telephonic notice is given, the transaction may be closed out in accordance with this section. The seller shall immediately thereafter send, return receipt requested, a written notice of close-out to the purchaser. Such notice shall contain the information specified in subparagraph (B) below, and shall be accompanied by a copy of the purchaser's confirmation of the transaction to be closed out or other written evidence of the contract between the parties.

(B) Content of Notice. The written notice sent in accordance with the requirements of subparagraph (A) above shall set forth:

- (1) the name and address of the municipal securities broker or dealer originating the notice;
- (2) the name and address of the municipal securities broker or dealer to whom the notice is being sent;
- (3) the name of the person to whom the originator provided the required telephonic notice;
- (4) the date of such telephonic notice;
- (5) the par value and description of the securities involved in the transaction with respect to which the close-out notice is given;
- (6) the trade date and settlement date of the transaction;
- (7) the price and total dollar amount of the transaction;
- (8) the date of improper rejection of the delivery;
- (9) the date by which the delivery of the securities must be accepted; and

(10) the name and telephone number of the person to contact regarding the close-out.

(C) Execution of Close-Out. Not earlier than the close of the business day following the date telephonic notice of close-out is given to the purchaser, the seller may sell out the transaction at the current market for the account and liability of the purchaser. A seller executing a close-out shall, upon execution, notify the purchaser for whose account and liability the transaction was closed out by telephone. The seller shall immediately thereafter confirm such notice in writing, sent return receipt requested, and forward a copy of the confirmation of the executed transaction. Any moneys due on the close-out of the transaction shall be forwarded to the appropriate party within ten business days of the date of execution of the close-out notice.

(D) Acceptance of Delivery. In the event the transaction is completed by the date and time specified in the notice of close-out, the seller shall be entitled, upon written demand made to the purchaser, to recover from the purchaser all actual and necessary expenses incurred by the seller by reason of the purchaser's rejection of delivery.

(iii) Close-Out Under Special Rulings. Nothing herein contained shall be construed to prevent brokers, dealers or municipal securities dealers from closing out transactions as directed by a ruling of a national securities exchange, a registered securities association or an appropriate regulatory agency issued in connection with the liquidation of a broker, dealer or municipal securities dealer.

(iv) Procedures Optional. Nothing herein contained shall be construed to require the parties to follow the close-out procedures herein specified if they otherwise agree.



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other _____

Rule G-12

Implementation of Amendments to Close-Out Procedures

On July 31, 1981, the Securities and Exchange Commission approved certain amendments to the close-out procedures set forth under rule G-12(h). The amendments revise the close-out procedures, particularly for a close-out by a purchasing dealer, to simplify the operations and time periods under the procedures, and, generally, to facilitate the efficient use of the procedures to encourage deliveries of securities and completion of transactions. The amendments and the new procedures are discussed in detail in the notice of approval of the amendments published elsewhere in this newsletter. At the Board's request the Commission delayed the effective date of the new procedures to September 14, 1981; municipal securities brokers and dealers seeking to close out transactions should continue to use the procedures currently set forth in rule G-12(h) (the "old procedures") until that time.

The Board believes that municipal securities professionals using the provisions for close-outs by purchasers may need some assistance in avoiding confusion or difficulty at the time the amendments to that procedure become effective, particularly if a close-out under the old procedure is in process on that date. Accordingly, this notice reviews the manner in which the new procedure for a close-out by a purchaser is to be implemented on the September 14 effective date. In addition, a chart setting forth the method of implementing this procedure is attached to this notice.

As a general matter, the new procedures will apply, to the extent practicable, to those aspects of the close-out which have not yet been completed by the effective date, as follows:

- (1) If a purchasing dealer wishes to initiate a close-out on or after the effective date, it should proceed in accordance with the new procedure.*
- (2) If a purchasing dealer has given notice of its intention to close out a transaction, but not yet taken action to execute the notice, the dates for delivery and execution of the notice, as established under the old

procedure, would be effective, but the provisions of the new procedure concerning completion of the close-out would apply.

(3) If a close-out notice has been executed, but the monies due have not yet been paid, the time requirement would apply to such payments.

(4) If a transaction is ninety (90) or fewer business days past the settlement date, a close-out may be initiated on it.

The one exception to this general rule applies in the case of a notice which has been issued under the old procedure by an originating dealer, and is in the process of being retransmitted at the time the new procedure becomes effective. In such cases, the retransmittal process should be completed in accordance with the old procedure, that is, each retransmittal subsequent to the initial retransmittal will extend the delivery and execution dates by one business day. Once the delivery and execution period dates have been finally established, then the provisions of the new procedure concerning completion of the close-out should be followed. In addition, the retransmittals of the close-out notice must be made within one-business day time limit provided under the new procedure for retransmittal of a notice.**

Several examples of the transition between the old and the new procedure may be helpful. These examples are set forth on the following pages, and refer to the calendars provided.

The Board's staff will be available to provide assistance to persons needing guidance on the application of the new procedure to particular close-outs in process, and also to respond to questions concerning the new procedures generally. Such inquiries may be directed to Donald F. Donahue, Deputy Executive Director.

*If the dealer had previously initiated a close-out under the old procedure, which had been allowed to lapse, and now seeks to initiate a new close-out under the new procedure, this would be considered a "second notice" for purposes of the new procedure.

**The new procedure requires that, if a dealer intends to retransmit a close-out notice to another dealer, it must do so within one business day of its receipt of the telephone notice of the close-out. Providing telephone notice of the retransmittal within the required time period is satisfactory for the purposes of the rule.

SEPTEMBER 1981

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1	2	3	4	5
	7 LABOR DAY	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

EXAMPLE ONE: Two Party Close-Out Initiated Prior to the Effective Date.

A close-out notice is initiated on a transaction on September 1. On September 2, the selling dealer indicates that the securities are in transfer, and applies the appropriate extension provided under the old procedure; the applicable dates are set at September 23, for delivery of the securities, and September 24-30, for execution of the notice.

As of the September 14 effective date of the new procedure, the applicable dates remain as established under the old procedure, but the close-out must be completed under the new procedure, that is, the purchaser may select one of the three specified execution options, money settlements must be made within ten business days of the execution date, etc.

EXAMPLE TWO: Money Settlement on a Close-Out Executed Prior to the Effective Date.

A close-out notice is initiated on a transaction on September 1. On September 2, the selling dealer indicates 3-10. The notice was executed on September 10, but the monies due on the close-out have not yet been paid.

As of the September 14 effective date of the new procedure, the time requirement for payment of monies due on close-outs becomes effective. The monies due therefore must be paid by September 24, ten business days following the date of the execution of the close-out notice.

EXAMPLE THREE: Retransmittals on a Procedure Initiated Prior to the Effective Date.

A close-out notice on a transaction was issued on September 10, with the deadline for delivery specified as September 17, and the execution dates specified as September 18-24. On September 11, the seller calls the originating purchaser and advises that it is failing to receive the securities from a third dealer. Since the close-out was initiated under the old procedure, the seller obtains the extension for this explanation provided under the old procedure, and the dates are changed to October 1, for delivery, and October 2-8 for execution. On the same day the seller calls the third dealer and retransmits the notice to it. Since the close-out was initiated under the old procedure, and the old procedure provides no time extension for an initial retransmittal, the dates remain as October 1, and October 2-8, respectively.

OCTOBER 1981

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
4	5	6	7	8	9	10
11	12 COLUMBUS DAY	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

On September 14, the effective date of the new procedure, the third dealer determines that it is failing to receive the securities from a fourth dealer, and retransmits the notice to the fourth dealer. Since this is the second retransmittal, and since this close-out was initiated under the old procedure, the one-business-day extension for retransmittal provided under the old procedure would apply. The delivery and execution dates would be extended to October 2, and October 5-9, respectively.*

On September 15, the fourth dealer determines that it is failing to receive the securities from a fifth dealer. Since this is the third retransmittal, and since this close-out was initiated under the old procedure, the one-business-day extension for retransmittal provided under the old procedure would apply. The delivery and execution dates would be extended to October 5, and October 6-13, respectively. Subsequent to this retransmittal the fifth dealer determines that it has the securities which are the subject of the close-out notice submitted for deregistration; the retransmittal process is therefore complete, and the effective dates of the notice have been established.

As noted previously, once the delivery and execution period dates have been finally established, then the provisions of the new procedure become applicable. If the October 5 deadline for delivery of securities passes, and the originating dealer elects to close out the transaction during the October 6-13 execution period, he must do so in accordance with the provisions of the new procedure. The money settlement on the close-out would also be required to be completed within the prescribed time limit.

EXAMPLE FOUR: Procedure Initiated On or Subsequent to the Effective Date.

A transaction has been in fail since September 2. On September 14, the effective date of the new procedure, the purchasing dealer initiates the first close-out on the transaction. Since the dealer is initiating the close-out on the effective date, the provisions of the new procedure would apply. The dealer's close-out notice must comply with the content requirements of the new procedure, and the dealer cannot specify a deadline date for the delivery of the securities earlier than September 28, nor an exe-

*The provisions of the old procedure requiring this and subsequent retransmitting parties to advise the originator of these extensions of dates would also continue to apply.

cution period earlier than September 29-October 5. The remainder of the close-out continues as set forth in the new procedure.

Chart of Implementation of New Procedure

I. Close-Out Initiated

STATUS OF PROCEDURE AS OF EFFECTIVE DATE	TREATMENT DURING IMPLEMENTATION
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Case One

Close-out initiated, being retransmitted.	Complete retransmittal process under old procedure, to establish effective dates of notice. Once this is done, continue with close-out under new procedure. (see EXAMPLE THREE)
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Case Two

Close-out initiated.	Once effective dates have been established continue with close-out under new procedure. (see EXAMPLE ONE)
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Case Three

Close-out has been executed, money settlement not yet made.	Money settlement must be made within ten business days of execution date. (see EXAMPLE TWO)
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II. Close-Out Not Yet Initiated

STATUS OF PROCEDURE AS OF EFFECTIVE DATE	TREATMENT DURING IMPLEMENTATION
--	---------------------------------

Case One

Close-out not yet initiated.	Close-out must be initiated and completed under new procedure. (see EXAMPLE FOUR)
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Case Two

Close-out not yet initiated (previous notice had been issued, allowed to lapse).	Close-out must be initiated and completed under new procedure, treated as second notice.
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Case Three

Close-out not yet initiated, transaction less than 90 business days old.	Close-out may be initiated on the transaction, up to the 90th business day after settlement.
--	--

Notice of Approval



Route To:

- Manager, Muni. Dept.**
- Underwriting**
- Trading**
- Sales**
- Operations**
- Compliance**
- Training**
- Other _____**

Qualifications

Conforming Amendments Regarding Municipal Securities Sales Principals Approved

On July 6, 1981, the Securities and Exchange Commission approved amendments to certain Board rules to make appropriate provision in such rules for the newly-created qualification category of "municipal securities sales principals." The amendments primarily affect the provisions of rules G-8, G-26, and G-27 regarding the supervision of customer accounts and transactions, and clarify the extent to which such supervisory functions may be delegated to a municipal securities sales principal. A technical amendment to rule G-7 regarding information to be maintained on associated persons was also approved.

The amendments are described more fully below. The texts of the amended rules are set forth at the end of this notice.

* * * * *

Amendments to Rules G-8, G-26, and G-27

Rule G-26 sets certain requirements which must be observed in the administration of customer accounts. Rule G-26(b) concerning the administration of discretionary accounts previously provided that no broker, dealer, or municipal securities dealer shall effect a transaction in municipal securities with or for a discretionary account except to the extent clearly permitted by the prior written authorization of the customer and accepted in writing by a municipal securities principal on behalf of the broker or dealer. The rule now provides that municipal securities sales principals may also accept discretionary accounts. The parallel provision of rule G-8(a)(xi)(H) has also been amended, to permit acceptance of such accounts by municipal securities sales principals.

Rule G-26(c) concerning the required review of transactions previously provided that a municipal securities principal shall promptly review and approve in writing each transaction in municipal securities effected with or for a discretionary account, and shall review at regular and frequent intervals all customer accounts in which transactions in municipal securities are effected, in order to detect and prevent irregularities and abuses. As amended, rule G-26(c) now permits municipal securities sales principals to perform these required reviews of discretionary and other customer account activity. The equivalent provision of rule G-8(a)(xi)(H) regarding dis-

cretionary transactions has also been amended, to the same effect.

Rule G-27 concerning supervision requires all municipal securities brokers and dealers to supervise the activities of their associated persons and the conduct of their municipal securities business. Rule G-27(b) requires municipal securities brokers and dealers to designate certain categories of principals as responsible for supervision of the activities of its associated persons and for enforcement of its written supervisory procedures. As amended, the rule permits designation of a municipal securities sales principal as responsible for the direct supervision of sales to and purchases from customers of municipal securities.

Questions regarding the amended rules should be directed to Judith R. Sillari, Assistant General Counsel.

Rule G-27(c) requires municipal securities brokers and dealers to establish in writing and to enforce supervisory procedures in order to assure compliance with the Board's rules. In addition, the rule establishes minimum standards for such written procedures. Amended rule G-27(c)(i) permits designation of a municipal securities sales principal as responsible for directly supervising customer sales and purchase activities in each branch office or other location in which such activities take place.

Rule G-27(c)(ii) as amended establishes the authority of a duly designated municipal securities sales principal to review and approve:

- (A) the opening of customer accounts introduced or carried by the municipal securities broker or dealer in which transactions in municipal securities may be effected,
- (B) customer purchase or sale transactions in municipal securities,
- (C) the handling of written customer complaints pertaining to transactions in municipal securities,
- (D) all correspondence with customers pertaining to the solicitation or execution of transactions in municipal securities, and
- (E) other matters required by rule of the Board to be reviewed by a municipal securities principal or general securities principal, as these items and activities relate to customer sales and purchase activities.

The parallel provision of rule G-8(a)(xi)(G) regarding significance of the acceptance of customer accounts on the

account information record has also been amended to permit the municipal securities sales principal to accept such accounts.

Rule G-27(c)(iii) requires the establishment, in writing, of supervisory procedures for the regular and frequent examination of customer accounts in which municipal securities transactions are effected. As amended, this rule permits municipal securities sales principals to be designated as responsible for performing this regular and frequent review of customer accounts.

* * * * *

Amendment to Rule G-7

Rule G-7 requires municipal securities brokers and municipal securities dealers to record certain background information concerning their associated persons. As amended, the rule expands the definition of "associated person" in rule G-7(a) to include a municipal securities sales principal, in order to insure that municipal securities brokers and dealers maintain complete records regarding such persons. In addition, rule G-7(f) now requires municipal securities brokers and dealers to maintain a record of each municipal securities sales principal's professional qualification examination status and any examination exemptions accorded such person.

Text of Approved Amendments*

Rule G-7. Information Concerning Associated Persons

(a) No associated person (as hereinafter defined) of a municipal securities broker or municipal securities dealer shall be qualified for purposes of rule G-2 of the Board unless such associated person meets the requirements of this rule. The term "associated person" as used in this rule means (i) a municipal securities principal, (ii) a municipal securities sales principal, (iii) a financial and operations principal and (iv) a municipal securities representative.

(b) through (e) No change.

(f) Every municipal securities broker and municipal securities dealer shall maintain and preserve a record of the name and residence address of each associated person, designated by the category of function performed (whether municipal securities principal, municipal securities sales principal, municipal securities representative, or financial and operations principal) and indicating whether such person has taken and passed the qualification examination for municipal securities principals or municipal securities sales principals or municipal securities representatives or financial and operations principals prescribed by the Board or was exempt from the requirement to take and pass such examination, indicating the basis for such exemption, until at least three years after the associated person's employment or other asso-

ciation with such municipal securities broker or municipal securities dealer has terminated.

(g) through (i) No change.

Rule G-8. Books and Records to be Made by Municipal Securities Brokers and Municipal Securities Dealers

(a) Description of Books and Records Required to Be Made. Except as otherwise specifically indicated in this rule, every municipal securities broker and municipal securities dealer shall make and keep current the following books and records, to the extent applicable to the business of such municipal securities broker or municipal securities dealer:

(i) through (x) No change.

(xi) Customer Account Information. A record for each customer, other than an institutional account, setting forth the following information to the extent applicable to such customer:

(A) through (F) No change.

(G) signature of municipal securities representative or general securities representative introducing the account and signature of a municipal securities principal, municipal securities sales principal or general securities principal indicating acceptance of the account;

(H) with respect to discretionary accounts, customer's written authorization to exercise discretionary power or authority with respect to the account, written approval of municipal securities principal or municipal securities sales principal who supervises the account, and written approval of municipal securities principal or municipal securities sales principal with respect to each transaction in the account, indicating the time and date of approval;

(I) through (J) No change.

(xii) No change.

(b) through (g) No change.

Rule G-26 Administration of Discretionary and Other Accounts

(a) No change.

(b) Discretionary Account Authorization. No broker, dealer, or municipal securities dealer shall effect a transaction in municipal securities with or for a discretionary account except to the extent clearly permitted by the prior written authorization of the customer and accepted in writing by a municipal securities principal or municipal securities sales principal on behalf of the broker, dealer, or municipal securities dealer.

(c) Review of Transactions. A municipal securities principal or municipal securities sales principal shall promptly review and approve in writing each transaction in municipal securities effected with or for a discretionary account introduced or carried by the broker, dealer or municipal securities dealer, and shall review at regular and frequent intervals all customer accounts introduced or carried by the broker, dealer, or municipal securities dealer in which transactions in municipal securities are effected, in order to detect and prevent irregularities and abuses.

*Underlining indicates new language.

Rule G-27. Supervision

(a) No change.

(b) Designation of Supervisors. Each municipal securities broker and municipal securities dealer shall designate one or more municipal securities principals and financial and operations principals as responsible for supervising the activities and business referred to in section (a) of this rule and for enforcing the supervisory procedures referred to in section (c) of this rule. Nothing contained in this rule shall require municipal securities brokers and municipal securities dealers to designate or have associated with them a financial and operations principal unless required by rule G-3 of the Board. A financial and operations principal shall not be designated to supervise non-financial activities. Each municipal securities broker and municipal securities dealer (other than a bank dealer) may also designate a duly qualified municipal securities sales principal as responsible for the direct supervision of sales to and purchases from customers of municipal securities.

(c) Written Procedures. Each municipal securities broker and municipal securities dealer shall establish, maintain, and enforce written supervisory procedures adopted by the municipal securities dealer to assure compliance with the rules and regulations thereunder. Such procedures shall provide, at a minimum, for

(i) the designation of at least one duly qualified municipal securities principal as responsible for supervising the activities with respect to municipal securities

of the associated persons of the municipal securities broker or municipal securities dealer and at least one duly qualified municipal securities principal as responsible for supervising the activities with respect to municipal securities of each branch office or other location or unit in which an associated person engages in any of the activities set forth in rule G-3(a)(iii) of the Board, provided, however, that a duly qualified municipal securities sales principal may be designated as responsible for the direct supervision of sales to and purchases from customers of municipal securities;

(ii) the prompt review and written approval by the designated municipal securities principal (or by a general securities principal if specifically authorized by rule of the Board or (to the extent that the following relate to sales and purchases from customers) by the designated municipal securities sales principal, of:

(A) through (D) No change.

(E) other matters required by rule of the Board to be reviewed or approved by a municipal securities principal or general securities principal or a municipal securities sales principal; and

(iii) the regular and frequent examination by the designated municipal securities principal or the designated municipal securities sales principal of customer accounts introduced or carried by the municipal securities broker or municipal securities dealer, in which transactions in municipal securities are effected, in order to detect and prevent irregularities and abuses.

**Route To:**

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other _____

Rules G-12 and G-15

Draft Amendments Regarding Lien Restrictions Not Adopted

The Municipal Securities Rulemaking Board has determined not to adopt draft amendments to rules G-12 and G-15 which would have required confirmations of transactions in revenue bonds to indicate if the lien securing the bonds is subordinate, in whole or in part, to the lien(s) securing other outstanding securities of the issuer. Rules G-12(c)(v)(E) and G-15(a)(v) currently require that confirmations set forth certain descriptive information concerning a transaction. In a draft rule issued for comment on March 28, 1980, the Board expressed the view that such a qualification on the pledge of revenues to the debt service of a particular issue should be included in a confirmation description. The Board indicated that either a description of the particular lien position or a designation that the securities were "junior lien" would satisfy the contemplated requirement.

The Board received several comment letters, all opposing the draft amendments. Certain of the commentators asserted that the securities description contained on a

confirmation is intended to serve a limited purpose, primarily the identification of the securities which are the subject of the transaction, and that the presentation on the confirmation of information concerning lien status goes beyond this limited function. Accepting this view, the Board has concluded that the confirmation generally is not intended to serve as a disclosure document, and, therefore, that the draft amendments are not appropriate.

The Board notes, however, that municipal securities brokers and dealers are, of course, obligated to provide customers with material information concerning securities they are considering purchasing. In circumstances where information concerning the lien status of a security is material, therefore, municipal securities professionals must provide such information to customers at or before the time of trade. Failure to do so may be a violation of Board rule G-17, concerning fair dealing with customers, and of other applicable rules and provisions of the securities laws.

Questions concerning this notice should be directed to Angela Desmond, Deputy General Counsel, or Donald F. Donahue, Deputy Executive Director.