

# MSRB REPORTS

Volume 1, Number 1

Municipal Securities Rulemaking Board

July 1981

## From the Chairman

The MSRB is seeking new and better ways to let you know what we are doing. This is the first issue of *MSRB Reports*; it will be sent to you monthly and will group together all notices which would have been sent to you separately. We hope that you will find *MSRB Reports* to be a more convenient way of learning about recent MSRB activities.

In addition, members of the Board and staff have held a number of meetings with dealers in various cities. At these meetings we tried to find out how the rules function in practice and what other matters may be of concern to the dealer community. Meetings were held in Baltimore, Richmond, Memphis, Nashville, Birmingham, Miami, St. Petersburg, Cincinnati, Louisville, and Indianapolis. We plan to hold similar meetings in other cities throughout the year.

The Board welcomes your suggestions on ways to improve the communication between you and the Board. Your input is essential to the self-regulation of the municipal securities industry—having rules written by those that have to abide by them.

Albert F. Blaylock  
MSRB Chairman 1980-81

Senior Vice President  
First Interstate Bank of California

## In This Issue

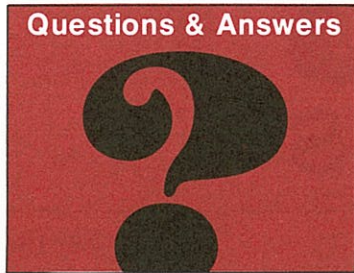
The SEC's approval of amendments to rule G-3 on professional qualifications has resulted in this first edition of *MSRB Reports* being largely devoted to qualifications matters. In addition to the notice of amendments to rule G-3, this edition includes notices concerning conforming changes to other rules and the new examination for municipal securities sales principals. You will also find several notices relating to syndicate settlement violations, clearing through registered

clearing agencies, and amendments to the reclamation provisions. The contents are:

- **Qualifications**  
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**Designation of a New Examination for Sales Principals**  
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- **RULES G-11 and G-12**  
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- **RULE G-12**  
**Uniform Practice Rule Amended to Facilitate Clearing Through Registered Clearing Agencies**  
**Amendment to Reclamation Provision Filed with SEC**

## June-October

- **June 14** —municipal securities principal prequalification amendment effective
- **Aug./Sept.** —anticipated start-up date for the General Securities Sales Supervisor Examination (Test Series 8)
- **October 1** —Effective date of yield disclosure amendment to rule G-15
- **Pending** —SEC approval of close-out procedure amendments  
—SEC approval of amendments to rules G-7, G-8, G-26 and G-27 conforming these rules to previously approved G-3 amendments  
—SEC approval of rule G-12 amendments facilitating clearing through registered clearing agencies  
—SEC approval of rule G-12 amendments to reclamation provisions



**Route To:**

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

## Qualifications

**Q:** Do the amendments to rule G-3 contain any substantial changes?

**A:** Yes, three. A new qualification category has been created for limited principals who supervise only the sale of municipal securities; there is also a new requirement that any individual who now wishes to qualify as a municipal securities principal must first qualify as a municipal securities representative; and the two-year "grace period" for municipal securities principals commences on the date that the individual first ceases to function as a principal, rather than on the date that they cease to be associated with the broker or dealer, as was the case previously.

**Q:** Why was the new category of municipal sales principal created?

**A:** Because the Board recognized that certain individuals in general securities firms, mainly branch office managers, supervise the sale of municipal bonds, but do not supervise activities in underwriting, trading, research, or other municipal securities dealer activities. Currently an individual wishing to become qualified to manage a full-service branch office must pass the NASD general securities principal examination, the NYSE branch office manager examination, the registered options principal examination, and the MSRB municipal securities principal examination. Not only is this burdensome, but from the Board's perspective it was unnecessary since some of the subject matter tested in the MSRB examination is duplicated in the other examinations and other matter was beyond the scope of responsibility of a typical branch office manager.

**Q:** Will a municipal securities sales principal be required to take and pass the existing examination for municipal securities principal?

**A:** For the present, yes. However, as an alternative the Board and other self-regulatory organizations are developing a joint examination for branch office managers that should be ready for administration by August, and which will qualify an individual as a municipal securities sales principal.

**Q:** Since an individual must now be qualified as a municipal securities representative before qualifying as a municipal securities principal, does this mean that any existing principal who is not a representative must become qualified as a representative?

**A:** No, this "prequalification requirement" is not retroactive and applies only to individuals who take the principal examination on or after June 14, 1981.

**Q:** The two-year grace period for representatives and principals is confusing. Could you explain this more fully?

**A:** Previously any person who was qualified as a principal or a representative retained that qualification for as long as he or she was "associated with" a municipal securities broker or dealer, and for a two year "grace period" after any association ceased. To be "associated with" the dealer, the person generally had to be acting in some registered capacity (e.g., as a principal, or a representative, or perhaps a financial principal). It would be possible, however, for a person to be qualified as a representative, stop acting as such, but continue to be qualified as a representative because that person continues to be "associated with" the dealer as a principal. The two-year grace period wouldn't begin running until he or she actually left the dealer.

**Q:** And does the new rule change that?

**A:** Partially, yes. The rule continues to permit a person who has qualified as a representative to retain that qualification as long as he or she is "associated with" a dealer plus two years. However, in the case of a person who is qualified as a principal and ceases to function as one, the two year grace period begins to run at the time the person stops functioning as a principal, even though the person might continue to be "associated with" the dealer.

**Q:** Under what circumstances might an individual cease to function as a principal yet remain associated with the broker or dealer?

**A:** One instance would be if the individual ceased to supervise representatives but remained with a broker or dealer as a representative.

**Notice of Approval****Route To:**

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

# Qualifications

## Rule G-3 Amended

### Professional Qualification Rules Significantly Modified

On May 15, 1981, the Securities and Exchange Commission approved amendments to rule G-3 on professional qualifications. These amendments which were, with one exception, effective upon approval, significantly modify the previous requirements in the following respects:

(1) They permit supervisory persons associated with general securities firms, such as branch office managers, whose activities with respect to municipal securities are limited to supervising customer sales and purchases to qualify as "municipal securities sales principals." The amendments contemplate that municipal securities sales principals would be able to qualify by passing the General Securities Sales Supervisor Qualification Examination, a joint examination which is being developed by the Board and other self-regulatory organizations;

(2) They require associated persons who wish to qualify as a municipal securities principal or a municipal securities sales principal to successfully complete the municipal securities representative examination requirement, as a prerequisite. This requirement, which became effective on June 14, after a thirty-day delay, would not affect persons who are presently qualified as municipal securities principals; and

(3) They modify the two-year "grace period" for persons who cease to function as municipal securities principals. The amendments also clarify certain provisions of the rule and delete references to exemptive provisions and dates which are no longer relevant. The full text of the amended rule is attached to this notice.

### Municipal Securities Sales Principals

A number of securities firms had expressed concern to the Board and other self-regulatory organizations regarding the multiple examination requirements applicable to certain persons associated with general securities firms who supervise only sales activities, such as branch office managers.\* These firms contend that the multiple examinations are burdensome and unnecessary in that they are often duplicative, and test subject matter that is beyond the scope of the customary responsibilities of such personnel. The Board believes that these concerns are valid, and has been working with the other self-regulatory organizations to develop a joint examination for such persons, to be called the General Securities Sales Supervisor Qualification Examination (Test Series 8).

The definitional provisions of rule G-3 have been amended to add a new qualification category, that of "municipal securities sales principal." A municipal securities sales principal is a person associated with a securities firm whose activities as they relate to municipal securities are limited to supervising customer sales and purchases. This rule change provides that municipal securities sales principals may qualify by taking and passing an appropriate examination to be designated by the Board. The Board has filed an amendment with the SEC which designates the aforementioned Series 8 examination, when it is completed, as the appropriate qualification examination (please refer to the notice of filing contained elsewhere in this newsletter). It is expected that this examination will be available for administration no earlier than August. In the interim, an individual who will be functioning as a municipal securities sales principal must become qualified by means of the Municipal Securities Principal Qualification Examination (Test Series 53).

### Prerequisite for Qualification

The qualification requirements in rule G-3 for municipal securities representatives and municipal securities principals are separate and distinct. Previously, a person could have qualified as a municipal securities principal without having first qualified as a municipal securities representative. In addition, the respective qualification examinations cover

**Questions regarding the changes to the rule or regarding the professional qualifications rules generally, may be addressed to Peter H. Murray, Assistant Executive Director, or to Judith R. Sillari, Assistant General Counsel.**

different areas of knowledge; the examination for municipal securities representatives focuses on product knowledge, while the examination for municipal securities principals and the examination being prepared for municipal securities sales principal focus on knowledge of supervisory responsibilities and compliance matters.

The Board believes that knowledge of municipal securities products and the functioning of the municipal market is essential in order to properly supervise the activities of municipal securities representatives. Accordingly, the rule has been amended to require successful completion of the municipal securities representative examination requirement as a part of the qualification requirements for municipal securities principals and municipal securities sales principals. This requirement became effective on June 14, 1981,

\*Currently, for example, managers of a full-service branch office of a general securities firm must pass the NASD General Securities Principal examination, the NYSE Branch Office Manager examination, the Registered Options Principal examination, and the Board's Municipal Securities Principal Qualification Examination.

30 days following the date of Commission approval of the amendments.

Prior to being amended, rule G-3 provided that persons who enter the industry in either a representative or principal capacity without previously having qualified as a municipal securities representative or a general securities representative could not transact business with members of the public or be compensated on a commission basis for a period of at least 90 days following the date of their employment. This "apprenticeship" requirement is intended to provide a period for assimilation of the practical aspects of industry participation, including many matters of direct interest to investors, knowledge of which is not readily amenable to evaluation by a written test. In view of the fact that municipal securities principals or municipal securities sales principals, when functioning as such, ordinarily have limited contact with members of the general public and that successful completion of the representative examination requirement would demonstrate product and industry knowledge appropriate for such limited contact, the "apprenticeship" requirement has been eliminated for persons who first enter the municipal securities industry as principals. The apprenticeship requirement has not been eliminated for municipal securities representatives. Therefore, under the rule, any person, including a principal, who engages in the activities of a municipal securities representative (e.g., trades or sells municipal securities), must satisfy the "apprenticeship" requirement, if such person is not exempt from its provisions.

### Two-Year Grace Period

Rule G-3 previously provided that once persons had qualified in a particular capacity, they retained the qualification regardless of whether they actually functioned in that capacity, so long as they remained associated with a municipal securities broker or municipal securities dealer plus two years from termination of such association. The rule changes continue this treatment for a person qualified in a representative capacity. However, in the case of a person who ceases to function as a principal or as a municipal sales principal, the two-year grace period now begins to run as of the time principal functions cease, even though he or she continues to be associated with a municipal securities broker or municipal securities dealer.

## Rule G-3. Classification of Principals and Representatives; Numerical Requirements; Testing

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

(a) Definitions. As used in the rules of the Board, the terms "municipal securities principal," "financial and operations principal," "municipal securities representative," and "municipal securities sales principal" shall have the following respective meanings:

(i) Municipal Securities Principal. The term "municipal securities principal" means a natural person associated with a municipal securities broker or municipal securities dealer, other than a municipal securities sales principal, who is directly engaged in the management, direction or supervision of one or more of the following activities:

- (A) underwriting, trading or sales of municipal securities;
- (B) financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
- (C) processing, clearance, and in the case of municipal securities brokers and municipal securities dealers other than bank dealers, safekeeping of municipal securities;
- (D) research or investment advice with respect to municipal securities;
- (E) any other activities which involve communication, directly or indirectly, with public investors in municipal securities;
- (F) maintenance of records with respect to the activities described in subparagraphs (A) through (E); or
- (G) training of municipal securities principals or municipal securities representatives;

provided, however, that the activities enumerated in subparagraphs (D) and (E) above shall be limited to such activities as they relate to the activities enumerated in subparagraphs (A) or (B) above.

(ii) Financial and Operations Principal. The term "financial and operations principal" means a natural person associated with a municipal securities broker or municipal securities dealer (other than a bank dealer), whose duties include:

- (A) approval of and responsibility for financial reports required to be filed with the Commission or any self-regulatory organization;
- (B) final preparation of such reports;
- (C) overall supervision of individuals who assist in the preparation of such reports;
- (D) overall supervision of and responsibility for individuals who are involved in the actual maintenance of the books and records from which such reports are derived;
- (E) overall supervision and performance of the responsibilities of the municipal securities broker or municipal securities dealer with which such person is associated pursuant to the financial responsibility rules under the Act;
- (F) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the processing and clearance functions of such municipal securities broker or municipal securities dealer; and
- (G) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the safekeeping functions of such municipal securities broker or municipal securities dealer.

(iii) Municipal Securities Representative. The term "municipal securities representative" means a natural person associated with a municipal securities broker or municipal securities dealer, other than a municipal securities principal, a municipal securities sales principal, or a person whose functions are solely clerical or ministerial, whose activities include one or more of the following:

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

provided, however, that the activities enumerated in subparagraphs (C) and (D) above shall be limited to such activities as they relate to the activities enumerated in subparagraphs (A) and (B) above.

(iv) Municipal Securities Sales Principal. The term "municipal securities sales principal" means a natural person associated with a municipal securities broker or municipal securities dealer (other than a bank dealer) whose supervisory activities with respect to municipal securities are limited exclusively to supervising sales to and purchases from customers of municipal securities.

(b) Numerical Requirements.

(i) Municipal Securities Principals. Every municipal securities broker and municipal securities dealer shall have at least two municipal securities principals, except as follows:

(A) every municipal securities broker or municipal securities dealer which is a member of a registered securities association and which conducts a general securities business shall have at least one municipal securities principal; and

(B) every municipal securities broker or municipal securities dealer having fewer than eleven persons associated with it in whatever capacity on a full-time or full-time equivalent basis who are engaged in the performance of its municipal securities activities, or, in the case of a bank dealer, in the performance of its municipal securities dealer activities, shall have at least one municipal securities principal.

(ii) Financial and Operations Principals. Every municipal securities broker and municipal securities dealer (other than a bank dealer) shall have at least one financial and operations principal, including its chief financial officer, qualified in accordance with section (d) of this rule, provided, however, that the numerical requirements of this paragraph shall not apply to any municipal securities broker or municipal securities dealer meeting the requirements of paragraphs (a)(2) or (3) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof.

**(c) Qualification Requirements for Municipal Securities Principals.**

(i) Except as otherwise provided in this section (c), every municipal securities principal shall take and pass the Municipal Securities Principal Qualification Examination prior to being qualified as a municipal securities principal. The passing grade shall be determined by the Board.

(ii) On or after June 14, 1981, any person seeking to become qualified as a municipal securities principal in accordance with paragraph (c)(i) of this rule, must, prior to being qualified as a municipal securities principal: (A) have been duly qualified as either a municipal securities representative or a general securities representative; or (B) have taken and passed either the Municipal Securities Representative Qualification Examination or the General Securities Registered Representative Qualification Examination.

(iii) The requirements of paragraph (c)(i) shall not apply to any person associated with a municipal securities broker or municipal securities dealer who was duly qualified as a municipal securities principal on May 15, 1981.

(iv) Any person who ceases to act as a municipal securities principal for two or more years at any time after having qualified as a municipal securities principal in accordance with this section (c) shall take and pass the Municipal Securities Principal Qualification Examination and be qualified as a municipal securities representative prior to being qualified as a municipal securities principal.

(v) For the first 90 days after becoming a municipal securities principal, the requirements of paragraph (c)(i) shall not apply to any person who is qualified as a municipal securities representative, general securities representative or general securities principal and who becomes a municipal securities principal provided, however, that such person shall take the Municipal Securities Principal Qualification Examination within that period.

(vi) The requirements of this section (c) may be waived in extraordinary cases for any associated person of a municipal securities broker or municipal securities dealer who demonstrates extensive experience in a field closely related to the municipal securities business of such municipal securities broker or municipal securities dealer. Such waiver may be granted:

(A) by a registered securities association with respect to a person associated with a member of such association, or

(B) by the appropriate regulatory agency with respect to a person associated with any other municipal securities broker or municipal securities dealer.

**(d) Qualification Requirements for Financial and Operational Principals.**

(i) Except as otherwise provided in this section (d), every financial and operations principal shall take and pass the Municipal Securities Rulemaking Board Financial and Operations Principal Qualification Examination prior to being qualified as a financial and operations principal. The passing grade shall be determined by the Board.

(ii) Any person who ceases to be associated with a municipal securities broker or municipal securities dealer as a financial and operations principal for two or more years at any time after having qualified as such in accordance with this section (d) shall take and pass the Financial and Operations Principal Qualification Examination prescribed by the Board prior to being qualified as a financial and operations principal.

(iii) The requirements of paragraph (d)(i) and (d)(ii) of this rule shall not apply to any financial and operations principal who is:

(A) registered and qualified in such capacity with a registered securities association, or

(B) associated with a municipal securities broker or municipal securities dealer meeting the requirements of paragraphs (a)(2) or (3) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof.

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

(A) by a registered securities association with respect to a person associated with a member of such association, or

(B) by the Commission with respect to a person associated with any other municipal securities broker or municipal securities dealer (other than a bank dealer).

**(e) Qualification Requirements for Municipal Securities Representatives.**

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

(ii) The requirements of paragraph (e)(i) of this rule shall not apply to any person who

(A) is duly qualified as a general securities representative by reason of having taken and passed the General Securities Registered Representative Qualification Examination, or

(B) was duly qualified as a municipal securities representative on May 15, 1981.

(iii) Any person who ceases to be associated with a municipal securities broker or municipal securities dealer (whether as a municipal securities representative or otherwise) for two or more years at any time after having

qualified as a municipal securities representative in accordance with this section (e) shall take and pass the Municipal Securities Representative Qualification Examination prior to being qualified as a municipal securities representative unless exempt therefrom pursuant to subparagraph (e)(ii)(A) of this rule.

(iv) The requirements of paragraph (e)(i) of this rule shall not restrict the performance of municipal securities activities by any person who first becomes associated with a municipal securities broker or municipal securities dealer in a representative capacity without previously having qualified as a municipal securities representative or general securities representative to the extent such activities are permitted by section (i) of this rule.

(v) The requirements of this section (e) may be waived for any associated person of a municipal securities broker or municipal securities dealer in extraordinary cases in which such person demonstrates extensive experience in a field closely related to the municipal securities business of such municipal securities broker or municipal securities dealer. Such waiver may be granted

(A) by a registered securities association with respect to a person associated with a member of such association, or

(B) by the appropriate regulatory agency with respect to a person associated with any other municipal securities broker or municipal securities dealer.

**(f) Qualification Requirements for Municipal Securities Sales Principals.**

(i) Except as otherwise provided in this section (f), every municipal securities sales principal shall take and pass an appropriate examination designated by the Board prior to acting in such capacity. The passing grade of such an examination shall be determined by the Board. Until the Board designates such an examination, every municipal securities sales principal shall be required to qualify as a municipal securities principal in accordance with the provisions of section (c) of this rule.

(ii) Any person seeking to become qualified as a municipal securities sales principal in accordance with paragraph (f)(i) of this rule, must, prior to being qualified as a municipal securities sales principal: (A) have been duly qualified as either a municipal securities representative or a general securities representative; or (B) have taken and passed either the Municipal Securities Representative Qualification Examination or the General Securities Registered Representative Qualification Examination.

(iii) The requirements of paragraph (f)(i) shall not apply to any person associated with a municipal securities broker or municipal securities dealer who is qualified as a municipal securities principal.

(iv) Any person who ceases to act as a municipal securities sales principal for two or more years at any time after having qualified as a municipal securities sales principal in accordance with this section (f) shall take and pass the appropriate examination designated by the Board and be qualified as a municipal securities representative prior to being qualified as a municipal securities sales principal.

(v) For the first 90 days after becoming a municipal securities sales principal, the requirements of paragraph (f)(i) shall not apply to any person who is qualified as a municipal securities representative, general securities representative, or general securities principal provided, however, that such person shall take the appropriate examination designated by the Board within that period.

(vi) The requirements of this section (f) may be waived in extraordinary cases for any associated person of a municipal securities broker or municipal securities dealer who demonstrates extensive experience in a field closely related to the municipal securities business of such municipal securities broker or municipal securities dealer. Such waiver may be granted

(A) by a registered securities association with respect to a person associated with a member of such association, or

(B) by the Commission with respect to a person associated with any other municipal securities broker or municipal securities dealer (other than a bank dealer).

**(g) Confidentiality of Qualification Requirements.**

No associated person of a municipal securities broker or municipal securities dealer shall:

(i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;

(ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;

(iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or

(iv) knowingly sign a false certification concerning any such qualification examination.

**(h) Retaking of Qualification Examinations.**

Any associated person of a municipal securities broker or municipal securities dealer who fails to pass a qualification examination prescribed by the Board shall be permitted to take the examination again after a period of 30 days has elapsed from the date of the prior examination, except that any person who fails to pass an examination three or more times in succession shall be prohibited from again taking the examination until a period of six months has elapsed from the date of such person's last attempt to pass the examination.

**(i) Employment.**

(i) Any person who first becomes associated with a municipal securities broker or municipal securities dealer in a representative capacity (whether as a

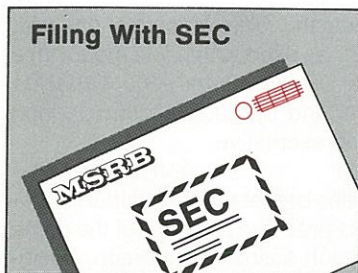
general securities representative or municipal securities representative) without having previously qualified as a general securities representative or municipal securities representative shall be permitted to function in a representative capacity without qualifying pursuant to paragraph (e)(i) for a period of at least 90 days following the date such person becomes associated with a municipal securities broker or municipal securities dealer provided, however, that such person shall not transact business with any member of the public with respect to, or be compensated for transactions in municipal securities during such 90 day period, regardless of such person's having qualified in accordance with the examination requirements of this rule. A person subject to the requirements of this section shall in no event continue to perform any of the functions of a municipal securities representative after 180 days following the commencement of such person's association with such municipal

securities broker or municipal securities dealer, unless such person qualifies as a municipal securities representative pursuant to paragraph (e)(i).

(ii) The requirements of this section (i) may be waived for any associated person of a municipal securities broker or municipal securities dealer in extraordinary cases in which such person demonstrates extensive experience in a field closely related to the municipal securities business of such municipal securities broker or municipal securities dealer. Such waiver may be granted

(A) by a registered securities association with respect to a person associated with a member of such association, or

(B) by the appropriate regulatory authority with respect to a person associated with any other municipal securities broker or municipal securities dealer.



**Route To:**

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# Qualifications

## Corresponding Rule Changes

### Amendments to Rule G-3 required corresponding amendments to Rules G-7, G-8, G-26 and G-27

On May 8, 1981, the Board filed with the Securities and Exchange Commission proposed amendments to rule G-7 relating to information concerning associated persons, rule G-8 concerning recordkeeping, rule G-26 concerning administration of accounts, and rule G-27 concerning supervision. The amendments adjust the Board's recordkeeping and supervisory rules to reflect the new qualification category of municipal securities sales principal. In developing the municipal securities sales principal category the Board contemplated that the full municipal securities principal would continue to have general supervisory responsibility for customer sales and purchases, but that certain direct supervisory functions could be delegated to municipal securities sales principals. The text of the proposed amendments is attached to this notice. The amendments primarily clarify those direct supervisory functions which a municipal securities principal may delegate to a municipal securities sales principal.

### Rule G-7 on Information Concerning Associated Persons

Rule G-7 requires municipal securities brokers and municipal securities dealers to record certain background information concerning their associated persons. The proposed amendment would expand 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, the proposed amendments, if approved, will amend rule G-7(f) to require 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.

### Rule G-8 Concerning Books and Records

Rule G-8 enumerates the specific records to be made and maintained by municipal securities brokers and dealers. Rule G-8(a)(xi) lists the customer account information to be recorded for each customer. Rule G-8(a)(xi)(G) currently requires that each customer account information record shall set forth, among other information, the signature of the municipal securities principal or general securities principal indicat-

ing acceptance of the account. The proposed amendment to rule G-8(a)(xi)(G) would permit municipal securities sales principals to signify acceptance of customer accounts on the required record.

Rule G-8 (a)(xi)(H) currently provides that customer account information records shall include, with respect to discretionary accounts, the written approval of the municipal securities principal who supervises the account and the written approval of the municipal securities principal with respect to each transaction in the account. The proposed amendment to this section of rule G-8 would make explicit the municipal securities sales principal's authorization to approve discretionary accounts and discretionary account transactions.

**Questions regarding the proposed amendments should be directed to Judith R. Sillari, Assistant General Counsel.**

### Rule G-26 Concerning Administration of Discretionary and Other Accounts

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 currently provides that no broker, dealer, or municipal securities broker or 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 proposed amendment to rule G-26(b) will permit municipal securities sales principals to provide written acceptance of discretionary accounts, in conformance with the provisions of rule G-8(a)(xi)(H) as it is proposed to be amended.

Rule G-26(c) relating to review of transactions currently provides 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. The proposed amendment to rule G-26(c) will permit municipal securities sales principals to perform these required reviews of discretionary and other customer accounts.

### Rule G-27 Concerning Supervision

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) currently requires each municipal securities broker or dealer to designate one or more municipal securities principals and financial and operations principals as responsible for supervising such activities. The proposed amendment to rule G-27(b) will, if approved, permit municipal securities brokers and dealers to designate a duly qualified municipal securities sales principal as responsible for the direct supervision of sales to and purchases from customers of municipal securities.

Rule G-27(c)(i) currently requires that the written supervisory procedures of a municipal securities broker or dealer designate at least one municipal securities principal as responsible for supervising the municipal securities activities of the broker or dealer's associated persons and at least one municipal securities principal as responsible for supervising the municipal securities activities of each branch office or similar unit. The proposed amendment to rule G-27(c)(i) would permit 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 in such activities take place.

Rule G-27(c)(ii) currently provides for 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, of:

- (A) the opening of each customer account introduced or carried by the municipal securities broker or municipal securities dealer in which transactions in municipal securities may be effected,
- (B) each transaction in municipal securities,
- (C) the handling of all written customer complaints pertaining to transactions in municipal securities,
- (D) all correspondence pertaining to the solicitation or execution of transactions in municipal securities, and
- (E) other matters reviewed by rule of the Board to be reviewed by a municipal securities principal or general securities principal.

The proposed amendment to rule G-27(c)(ii), if approved, will establish the authority of a municipal securities sales principal to review and approve the items and activities described, as they relate to customer sales and purchases of municipal securities.

Rule G-27(c)(iii) currently requires written supervisory procedures for the regular and frequent examination by the designated municipal securities principal of customer accounts in which municipal securities transactions are effected. The proposed amendment to rule G-27(c)(ii), if approved, will permit the municipal securities sales principal to perform the regular review of customer accounts. The proposed amendment will also conform rule G-27(c) to rule G-26(c) concerning review of transactions as it is proposed to be amended.

## **Text of Proposed 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 association 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 transac-

\*Italics indicates new language; shading indicate deletions.



tion 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.

**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;*

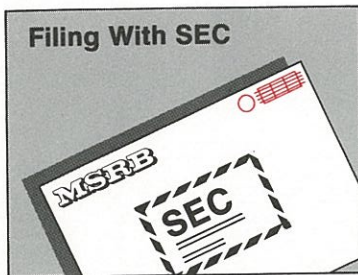
(ii) the prompt review and written approval by the designated municipal securities principal or by a general securities principal if specifically authorized by rule of the Board) or *(to the extent that the following relate to sales and purchases from customers) by the designated municipal securities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

No changes in remainder of text.



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# Qualifications

## New Examination for Sales Principals

The Board filed on June 15, 1981, a further change to rule G-3 to designate an examination for municipal securities sales principals. As discussed previously in this newsletter, the activities of these persons with respect to municipal securities are limited to supervising customer transactions, typically as a manager of a firm's branch office.

The category of municipal securities sales principal was established in response to concerns expressed by a number of general securities firms regarding the multiple examination requirements applicable to certain persons associated with general securities firms who supervise only sales activities, such as branch office managers. In response to these comments, the Board and the other self-regulatory organizations began, in the summer of 1980, to develop a joint examination for these persons.\* This examination, to be called the General Securities Sales Supervisor Qualification Examination (the "Series 8 examination"), is substantially complete, and is expected to be ready for administration in the summer of 1981. Accordingly, the Board is filing an amendment at this time to designate the Series 8 examination as the appropriate qualifications medium for municipal securities sales principals.

### The Series 8 Examination

The Series 8 examination is a comprehensive test covering a broad range of material, including the Securities Act of 1933 and the Securities Exchange Act of 1934 and SEC rules thereunder, NYSE and NASD rules, and the rules applicable to transactions in securities options. The examination consists of 200 questions and a candidate must answer 70% of the questions correctly to achieve a passing score. The tests will be administered on the PLATO System at Control Data Learning Centers. The test will be divided into two parts of 100 questions each. Each part will have an allowed testing time of three hours. Part I is divided into two sections: the first dealing solely with options, the second, only with Board rules. Part II

will cover all the remaining material concerning requirements applicable to general securities transactions.

Municipal securities regulations will comprise 22.5% of the examination. Since the activities to be permitted persons who qualify by means of this examination are limited in scope, certain Board rules or sections of rules, which were deemed to deal with matters that were beyond the responsibilities permitted to municipal securities sales principals, are not included in the specifications for the Series 8 examination. The examination will focus on rules governing such matters as sales supervision (e.g., rule G-19 on suitability of recommendations, rule G-25 on improper use of assets), account supervision (e.g., rule G-26 on discretionary and other customer accounts, rule G-27 on supervision, rules G-15 on customer confirmations and G-32 on disclosures in connection with new issues), and the operation of the municipal securities markets (e.g., certain aspects of rule G-11 on syndicate practices, rule G-13 on quotations, rule G-18 on execution of transactions, and rule G-30 on prices and commissions). A copy of the full Study Outline for the Series 8 examination is available on request from the Board's offices.

The Board is confident that this new examination will provide a test of a candidate's ability to supervise municipal securities sales activities that is reliable and commensurate with the nature of these persons' responsibilities. The Board, as well as the other participating self-regulatory organizations, will review the results of candidates on the Series 8 examination to ensure that the performance of candidates on the examination as a whole reasonably corresponds to their performance on the various sections of the examination.

### Current Requirements

Persons functioning as municipal securities sales principals are currently required to qualify by means of the full Municipal Securities Principal Qualification Examination. The Board reminds the industry that persons who become municipal securities sales principals will be required to qualify by means of the full principal examination until such time as the SEC approves the Series 8 examination.

**Questions regarding the Series 8 examination may be addressed to Peter H. Murray, Assistant Executive Director.**

\*The joint examination was developed by a committee composed of representatives of the general securities industry, and of the participating self-regulatory organizations. The self-regulatory organizations participating in the joint examination are the American Stock Exchange, the Chicago Board Options Exchange, the Midwest Stock Exchange, the National Association of Securities Dealers, the New York Stock Exchange, the Pacific Stock Exchange, the Philadelphia Stock Exchange, and the Board.



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# Qualifications

## Debriefing of Examination Candidates

Board rule G-3 sets forth standards of qualifications for municipal securities brokers and municipal securities dealers and their associated persons, including examination requirements for municipal securities principals, municipal securities financial and operations principals, municipal securities sales principals, and municipal securities representatives.

In order to assure that its examinations constitute valid tests of the qualifications of persons who take them, the Board has instituted various procedures, in the question-writing as well as the administration phases, which are designed to preserve the confidentiality of the examinations. In addition, on one occasion the Board found it necessary to take legal action, alleging copyright violations, against a securities training school which had used in its training material questions and answers that appeared to have been taken from questions contained in Board qualification examinations.

The Board wishes to point out that the practice of "debriefing" persons who have taken a municipal securities qualifications examination (i.e. requesting or encouraging such persons to reveal the contents of the examinations) may not only give rise to an infringement of the Board's copyright but would, if engaged in by members of the municipal securities industry, constitute a violation of the Board's rules. In this

regard, rule G-3(f) provides that no person associated with a municipal securities broker or municipal securities dealer shall (i) disclose to any person any question on any municipal securities qualification examination or the answers to any such questions, (ii) engage in any activity inconsistent with the confidential nature of any such qualification examination or its purpose as a test of the qualifications of persons taking such examination, or (iii) knowingly sign a false certification concerning any such qualification examination.\*

**Questions or comments concerning this notice should be directed to Angela Desmond, Deputy General Counsel.**

## Revised Study Outline

### Updated Representative's Examination Study Outline Available

The Study Outline for the Municipal Securities Representative Qualification Examination has been revised and updated. In order to achieve greater clarity in presentation, additional detail has been added and the presentation of several topics has been realigned. However, there has been no substantive change in the subject matter contained in the previous editions of the outline. In addition, the list of reference materials has been updated and sample questions have been provided in order to give the candidate a sense of the format and content of a typical examination question.

For copies of the revised outline, please contact Sarah D. Stanton at the Board's office.

\*Each person taking a municipal securities qualification examination is required to agree to maintain the confidentiality of the questions and his or her answers to them.

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## Rule G-11 and G-12

### Syndicate Settlement Practice Violations Noted

The Board continues to be concerned about industry compliance with certain of the requirements of Board rules G-11, "Sales of New Issue Municipal Securities During the Underwriting Period," and G-12, "Uniform Practice," with respect to the settlement of syndicate accounts. Board 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.\* 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. In addition, rule G-12(i) requires that good faith deposits be returned within two business days of settlement with an issuer, and rule G-12(k) requires that sales credits designated by a customer be distributed within 30 days following delivery of the securities to the customer.

The Board has from time to time received complaints from industry members concerning certain managers' non-compliance with these requirements. These persons allege that certain managers unduly delay the sending of syndicate settlement checks and other disbursements, and furnish settlement statements that provide little or no detail about the nature of the expenses incurred by the syndicate. These persons have also, on occasion, furnished to the Board copies of syndicate statements which illustrate clearly these managers' failure to provide the requisite information and to meet the time requirement for these disbursements. The Board has referred each of these complaints to the appropriate regulatory agency for investigation and appropriate action.

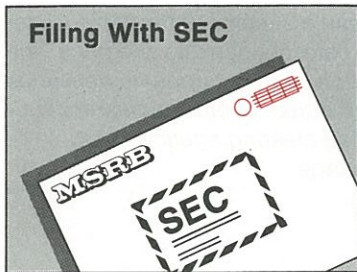
The Board wishes to emphasize strongly the need for compliance with these provisions. The Board continues to be of

the view that the time periods and other requirements of the rules, which were arrived at after considerable deliberation, are fair and unreasonable. The Board believes that failure to comply with these provisions is inexcusable. The Board does not accept the rationale offered by some, that the difficulties in obtaining bills for syndicate expenses justify these undue delays; the Board believes that it is incumbent upon managers to assure that such bills are received and processed in timely fashion, to permit compliance with the rule. The Board strongly urges syndicate managers who have failed to comply with these requirements to bring their practices into compliance with the requirements of the rules.

The Board also is communicating these views to the enforcement organizations and stressing its concern with respect to compliance with these provisions. It strongly urges all syndicate members to notify the appropriate enforcement organization of any violations by managers of these provisions. If the manager is a member of the NASD, notification should be directed to Jack Rosenfield, Department of Policy Research, National Association of Securities Dealers, Inc, 1735 K Street, N.W., Washington, D.C. 20006, telephone (202) 833-4828. If the manager is a national bank, notification should be sent to Owen Carney, Director, Investment Securities Division, Office of the Comptroller of the Currency, 490 L'Enfant Plaza, S.W., Washington, D.C. 20219, telephone (202) 477-1901. If the manager is a State member bank of the Federal Reserve System, notification should be directed to the Division of Banking Supervision and Regulation, Federal Reserve Board, 20th and C Streets, N.W., Washington, D.C. 20551, telephone (202) 452-2781. If the manager is a bank insured by the Federal Deposit Insurance Corporation (other than a member of the Federal Reserve System), notification should be directed to James R. Dudine, Intelligence Unit, Division of Bank Supervision, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429, telephone (202) 389-4415.

**Questions concerning this notice may be directed to Angela Desmond, Deputy General Counsel.**

\*The rule contemplates that the statement will set forth a detailed break-down of expenses into specified categories, such as advertising, printing, legal, computer services, packaging and handling, etc. The statement may include an item for miscellaneous expenses, provided that the amount shown under such an item is not disproportionately large in relation to other items of expense shown and includes only minor items of expense which cannot be easily categorized elsewhere in the statement.



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# G-12

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

**Uniform Practice Rule Amended to Facilitate Clearance of Municipal Securities**

On June 1, 1981, the Board filed with the Securities and Exchange Commission amendments to rule G-12. Rule G-12 sets forth uniform practices to be followed by all municipal securities brokers and municipal securities dealers including procedures relating to the clearance and settlement of municipal securities transactions. Presently the rule contains a general exclusion from its application for transactions which are "compared, cleared, and settled through the facilities of a clearing agency registered with the Commission." The Board has concluded, however, that, as clearing agencies become increasingly active in the processing of municipal securities transactions certain amendments to rule G-12 are appropriate to clarify the intent of this exclusion and to coordinate the various standards and requirements of the Board's rule with the procedures normally used by registered clearing agencies.

Accordingly, the Board has amended rule G-12(a)(i) to clarify that the exclusion from the rule for transactions processed through a registered clearing agency applies only to those functions—comparison, clearance and/or settlement—actually performed by the clearing agency. Further, the amendments specify that transactions are exempt from the comparison and verification provisions only to the extent they are successfully compared by the clearing agency, and that such transactions are exempt from the "good delivery" standards of the rule only to the extent that they are cleared by a means which does not involve the physical delivery of securities. The Board also has amended rule G-12(d) to provide a verification procedure in the event of a failure by the clearing agency to compare the transaction.

Finally, the Board has amended rule G-12(e)(i) and (iii) to clarify that use of current envelope delivery services, or other services of registered clearing agencies, which entail the physical delivery of securities, constitutes good delivery when the parties so agree, and, since dealers may elect whether or not to use netting procedures, to exempt deliveries on balance orders resulting from use of a netting system from the restrictions on partial deliveries. The text of the above amendments to rule G-12 is attached to this notice.

The rule changes will become effective upon approval by the Commission, normally within 35 days after their publication by the Commission.

## Text of Proposed Amendments\*

**G-12 Uniform Practice**

(a) Scope and Notice

(i) All transactions in municipal securities between any broker, dealer or municipal securities dealer shall be subject to the provisions of this rule, except to the extent that such transactions are compared, cleared and settled through the facilities of a clearing agency registered with the Commission, in which event the rules of such clearing agency shall apply *provided, however, that a transactions submitted to a registered clearing agency for comparison shall be exempt from the provisions of section (c) and, to the extent such transaction is compared by the clearing agency, section (d) of this rule, and a transaction which is settled or cleared through the facilities of a registered clearing agency by a means which does not involve the physical delivery of securities shall be exempt from the provisions of section (e) of this rule.*

(ii) through (iii) No change.

(b) through (c) No change.

(d) Comparison and Verification of Confirmations; Unrecognized Transactions.

(i) through (vi) No change.

(vii) *In the event a party has submitted a transaction for comparison through the facilities of a registered clearing agency but such transaction fails to compare, the submitting party shall, within one business day after final notification of the failure to compare is received from the clearing agency, initiate the procedures required by paragraph (iii) of this section.*

(vii) through (viii) renumbered as (viii) through (ix).

No substantive change.

(e) Delivery of Securities. The following provisions govern the delivery of securities:

(i) Place and Time of Delivery. Delivery shall be made at the office of the purchaser, or its designated agent, between the hours established by rule or practice in the community in which such office is located. If the parties so agree, book entry or other delivery through the facilities of

\*Italics indicate new language; shading indicate deletions.

a registered clearing agency or delivery by other means which do not involve the physical delivery of securities will constitute good delivery for purposes of this rule.

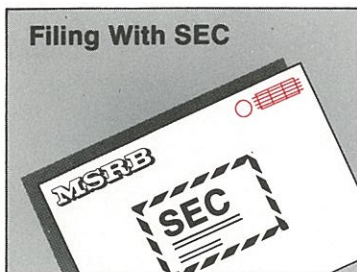
(ii) No change.

(iii) Partial Delivery. The purchaser shall not be required to accept a partial delivery with respect to a single trade in a single security. For purposes of this paragraph, a

"single security" shall mean a security of the same issuer having the same maturity date, coupon rate and price. *The provisions of this paragraph shall not apply to deliveries made pursuant to balance orders or other similar instructions issued by a registered clearing agency.*

(iv) through (xv) No change.

(f) through (l) No change.



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# Rule G-12

## Amendment to Reclamation Provision Filed

On June 1, 1981, the Board filed with the Securities and Exchange Commission a proposed amendment to rule G-12(g) concerning reclamation. The text of the proposed amendment is attached to this notice.

Under section (g) of rule G-12, parties to an inter-dealer transaction in municipal securities have a right to reclaim, or to demand reclamation of, securities previously delivered, under certain circumstances during specified time periods. For example, the rule currently provides for reclamation in the event of a delivery of securities with mutilated coupons, securities which are the subject of an "in part" call, or securities which have been reported as missing or stolen. The proposed amendment would modify section (g) to expand the circumstances under which reclamation is permitted.

Under section (e) of the rule, a party selling municipal securities which are issuable in both bearer and registered form is obliged to deliver to the contra-party securities in bearer form, unless the parties agree at the time of trade that the transaction involves securities in registered form. Section (g), however, does not currently permit a dealer to reclaim, or demand reclamation of, securities which are delivered, and erroneously accepted, in registered form, when the terms of the trade did not specify registered securities. The Board is of the view that a reclamation remedy should be provided for this circumstance.

Deregistration or transfer of municipal securities can, at times, be an involved and expensive process. The transfer agent on an issue is often a small bank located in or near to the municipality, or, in a number of instances, it is the municipal issuer itself; therefore, submitting the securities for transfer is often a time-consuming procedure. Further, the expense involved in deregistration or transfer can range from a service fee to the cost of reproducing engraved plates and related printing expenses. While these difficulties are not insurmountable, the Board believes that a dealer erroneously accepting registered securities, when it is owed bearer securities, should be provided some means of correcting this error, so that it does not have to become involved in a cumbersome transfer or deregistration process.

The proposed amendment would therefore establish a right of reclamation in the event that a transaction not specified to

involve registered securities is completed by the erroneous delivery and acceptance of registered securities. Since registered municipal securities are, in most cases, clearly distinguishable from bearer municipal securities, the Board believes that a dealer should be able to determine very promptly that it has erroneously accepted securities in registered form. Accordingly the Board proposes to establish a time limit of one business day from the date of delivery of the securities for reclamations in this circumstance. The Board notes that this time limit is consistent with that provided in the Board's rule for reclamations arising from other defects in the securities certificates which were delivered.

The proposed amendment will not become effective until approved by the Commission.

**Questions regarding the proposed amendment should be addressed to Donald F. Donahue, Deputy Executive Director.**

## Text of Proposed Amendment\*

### Rule G-12. Uniform Practice

- (a) through (f) No change.
- (g) Rejections and Reclamations.
  - (i) and (ii) No change.
  - (iii) Basis for Reclamation and Time Limits. A reclamation may be made by either the receiving party or the delivering party if, subsequent to delivery, information is discovered which, if known at the time of the delivery, would have caused the delivery not to constitute good delivery, provided such reclamation is made within the following time limits:
    - (A) Reclamation by reason of the following shall be made within one business day following the date of delivery:
      - (1) and (2) No change.
      - (3) not good delivery because a legal opinion or other documents referred to in paragraph (e)(x) hereof were missing; or .
      - (4) *not good delivery because the securities (which are issuable in both bearer and registered form) were delivered in registered form and were not identified as such at the time of trade.*
    - (B) through (D) No change.
  - (iv) through (vi) No change.
  - (h) through (l) No change.

\*Italics indicate additions; shading indicate deletions.