MSRB
R·E·P·O·R·T·S
MUNICIPAL SECURITIES RULEMAKING BOARD
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Calendar

July 1
Effective date of continuing education rules

July 3
Effective date of amendments to rule G-36 and Form G-36(OS)

July 31
Due date for Form G-37 to be filed with the Board (for the period April 1, 1995 - June 30, 1995)

Pending
Amendment to rule G-14, on reports of sales or purchases, and associated transaction reporting procedures

Amendment to rule G-15(a), on customer confirmations

Amendment to rule G-15 requiring dealers to submit DVP/RVP customer transactions for automated confirmation/acknowledgement no later than the end of trade date, rather than no later than the business day after trade date, as currently required

Proposed changes to the CDI system

Staff Appointment

Loretta J. Rollins has been appointed Director of Professional Qualifications. She has been with the Board since 1990. She was previously Professional Qualifications Administrator.

QUESTIONS AND ANSWERS

Political Contributions and Prohibitions on Municipal Securities Business: Rule G-37

Route To:

- Manager, Muni Department ●
- Underwriting ●
- Trading ●
- Sales ●
- Operations ○
- Public Finance ●
- Compliance ●
- Training ○
- Other ○

Additional Questions & Answers Notice Published

The Board is publishing a fifth Questions and Answers notice concerning certain provisions of rule G-37.

1.
Q: Is rule G-37 applicable to contributions given to officials of issuers who are seeking election to federal office, such as the House of Representatives, the Senate or the Presidency?

A: Yes. Rule G-37(g)(i) defines "contribution" as, among other things, any gift, subscription, loan, advance, or deposit of money or anything of value made for the purpose of influencing any election for **federal**, state or local office.

2.
Q: Section (b) of rule G-37 provides an exception from the ban on municipal securities business for *de minimis* contributions of up to $250 by municipal finance professionals to officials of issuers for whom the municipal finance professional is entitled to vote. How does a municipal finance professional determine whether he or she is "entitled" to vote for an official of an issuer?

A: A municipal finance professional is entitled to vote for an official of an issuer if the issuer official is on the ballot in the locality in which the municipal finance professional may vote. For example, with regard to a local general election campaign, all municipal finance professionals may contribute the $250 *de minimis* amount to an issuer official whose name has been placed on the ballot of the general election in the locality in which the municipal finance professional may vote without causing the dealer to be banned from business with the issuer. So too, with regard to a state-wide primary election campaign, all municipal finance professionals may contribute the $250 *de minimis* amount to an issuer official whose name has been placed on the primary ballot in their state of residence without causing the dealer to be banned from business with the issuer.

A municipal finance professional may not rely on the *de minimis* provision when giving to incumbents or candidates who are issuer officials unless he or she determines that such incumbent or candidate, in fact, is on the primary or general election ballot of the appropriate locality. If the incumbent or candidate is not "on the ballot," then any contribution(s) made by a municipal finance professional would trigger the rule's two-year ban on municipal securities business.

3.
Q: If the locality in which the incumbent or candidate is seeking election as an issuer official holds a convention or caucus (instead of a primary election) prior to the general election, may a municipal finance professional entitled to vote in that locality contribute $250 to the incumbent or candidate's convention or caucus election campaign, as well as $250 to the incumbent or candidate's general election, without causing a ban on municipal securities business with the issuer?

A: Yes, if the issuer official has been qualified to be considered at the state caucus or convention.

4.
Q: Rule G-37(i) provides a procedure whereby dealers may request that the NASD or the appropriate regulatory agency (*i.e.*, federal bank regulatory authorities) grant an exemption from the rule's two-year ban on municipal securities business with an issuer which resulted from political contributions made to officials of that issuer by the dealer, a PAC controlled by the dealer, or a municipal finance professional. If a municipal finance professional made a contribution to an issuer official which triggered the ban, what factors would be relevant to the dealer's decision to request an exemption from that ban, and to the NASD or appropriate regulatory agency in determining whether the exemption should be granted?

A: In determining whether to grant such an exemption, rule

G-37(i) requires the NASD or the appropriate regulatory agency to consider, among other factors, whether (i) such exemption is consistent with the public interest, the protection of investors and the purposes of rule G-37; and (ii) such dealer (A) prior to the time the contribution(s) which resulted in such prohibition was made, had developed and instituted procedures reasonably designed to ensure compliance with the rule; (B) prior to or at the time the contribution(s) which resulted in such prohibition was made, had no actual knowledge of the contribution(s); (C) has taken all available steps to cause the person or persons involved in making the contribution(s) which resulted in such prohibition to obtain a return of the contribution(s); and (D) has taken such other remedial or preventive measures as may be appropriate under the circumstances.

In reviewing the facts and circumstances presented by the dealer, as well as the factors set forth above, the NASD or the appropriate regulatory agency will consider whether, prior to the time the contribution was made, the dealer had developed and instituted procedures reasonably designed to ensure compliance with the rule. Such procedures are required by rule G-27 on supervision. Effective compliance procedures are essential because rule G-37 requires the dealer to have information regarding each contribution made by the dealer, dealer-controlled PACs and municipal finance professionals so that the dealer can determine where and with whom it may or may not engage in municipal securities business. In addition, for disclosure purposes, the dealer must maintain information on executive officers' contributions and payments to political parties, as well as consultant hiring practices. Moreover, because of the "directly and indirectly" provision in rule G-37(d), as well as the no solicitation and no bundling provisions in section (c) of the rule, the dealer must ensure that those persons and entities subject to the rule are not causing the dealer to be in violation thereof. In this regard, the Board wishes to remind dealers that they are responsible for determining which of their employees, supervisors (*e.g.*, branch managers), and management personnel (*e.g.*, members of the dealer's executive or management committee or similarly situated officials) are "municipal finance professionals." In addition to those persons and entities covered by the rule, the dealer must ensure that other persons and entities hired to assist in municipal securities activities (*e.g.*, consultants) are not being directed to make contributions, or otherwise being used as conduits, in violation of the rule.

In reviewing a request for exemption, the NASD or the appropriate regulatory agency also will consider whether the dealer has taken all available steps to obtain a return of the contribution. The return of the contribution, while important, is only one of the factors to be considered, and is *not* dispositive of whether an exemption should be granted.

Finally, the NASD or appropriate regulatory agency will consider whether the dealer has taken remedial or preventive measures as may be appropriate under the circumstances. Thus, dealers should provide information on any changes to compliance procedures and/or personnel action taken to address the particular situation which resulted in the prohibition so that such problems do not recur. For additional guidance on the exemption provision, please refer to Q&A number 2 in the August 1994 issue of *MSRB Reports* (Vol. 14, No. 4), CCH Manual paragraph 3681.

The Board previously provided two examples in which exemptions may be appropriate. The first example described a situation in which a disgruntled municipal finance professional made a contribution purposely to injure the dealer, its management or employees. The second example involved a municipal finance professional who was eligible to vote for a particular issuer official and who made a number of small contributions during an election cycle (*e.g.*, over four years) which, when consolidated, amounted to slightly over the $250 *de minimis* exemption (*e.g.*, $255).

The Board believes that the following situations are **not** sufficient to justify the granting of an exemption from a ban on business: (1) a contribution was made by a municipal finance professional which subjected the dealer to the two-year ban on business, but the municipal finance professional was not aware of rule G-37 or any of its particular provisions; (2) the dealer or a municipal finance professional did not know that the recipient of a particular contribution was an "official of an issuer"; and (3) at the time the contribution was made, an associated person did not know that he was a "municipal finance professional" by virtue of his supervisory capacity, by being primarily engaged in municipal securities representative activities, or by virtue of any of the other activities listed in the rule's definition of municipal finance professional.

The Board is strongly of the view that exemptions should be granted only in limited circumstances. If a significant number of exemptions are granted by the regulatory agencies, then the Board may reexamine the propriety of the exemption provision. ● June 15, 1995

ATTENTION ! ATTENTION

Letter of Interpretation

Route To:

- Manager, Muni Department ●
- Underwriting ●
- Trading ●
- Sales ●
- Operations ○
- Public Finance ●
- Compliance ●
- Training ○
- Other ○

Rule G-37. Political Contributions and Prohibitions on Municipal Securities Business

This is in response to your letter dated May 5, 1995, concerning the application of the Board's rule G-37 to a campaign for President of the United States. You ask specifically about the application of rule G-37 to contributions to Governor [name deleted] presidential campaign. The Board reviewed your letter at its May 18-19, 1995 meeting and has authorized this response.

As you know, rule G-37, among other things, prohibits any broker, dealer or municipal securities dealer (dealer) from engaging in municipal securities business with an issuer within two years after any contribution to an official of such issuer made by: (i) the dealer; (ii) any municipal finance professional associated with such dealer; or (iii) any political action committee controlled by the dealer or any municipal finance professional. The only exception to rule G-37's absolute prohibition on business is for certain contributions made to issuer officials by municipal finance professionals. Specifically, contributions by such persons to officials of issuers would not invoke application of the prohibition if the municipal finance professional is entitled to vote for such official, and provided that any contributions by such municipal finance professional do not exceed, in total, $250 to each official, per election. Rule G-37(g)(i) defines the term "contribution" as any "gift, subscription, loan, advance, or deposit of money or anything of value made: (A) for the purpose of influencing any election for federal, state or local office..."

The Board previously has clarified that rule G-37 does not encompass all contributions to candidates for federal office. Rather, for federal office, the rule encompasses only those contributions to a current issuer official who is seeking election to federal office.[1]

You ask whether the Governor of [a state] is an "official of an issuer" for purposes of rule G-37. Rule G-37(g)(vi) defines the term "official of an issuer" as "any person (including any election committee for such person) who was, at the time of the contribution, an incumbent, candidate or successful candidate; (A) for elective office of the issuer which office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a broker, dealer or municipal securities dealer for municipal securities business by the issuer; or (B) for any elective office of a state or of any political subdivision, which office has authority to appoint any official(s) of an issuer..." as defined above. The Board has not provided any exemptions from, or exception to, the definition "official of an issuer" as set forth in rule G-37.

The Board does not make determinations concerning whether a particular individual meets the definition of "official of an issuer." The Board believes that because such determinations may involve particular issues of fact, such decisions must generally be the dealer's responsibility. The Board has, however, provided guidance in this area by recommending that dealers review the scope of authority conferred upon the particular office (and not the individual) to determine whether the office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a dealer for municipal securities business.[2] For example, a state may have certain issuing authorities whose boards of directors are appointed by the governor. In such circumstances, the Board previously has stated that it intended to include the governor as an official of the issuer.[3]

You ask whether rule G-37 applies to candidates for President of the United States. As noted above, the term "contribution" as defined in rule G-37(g)(i) includes payments "for the purpose of influencing any election for **federal**, state or local office." [Emphasis added]. Thus, rule G-37 is applicable to contributions given to officials of issuers who seek election to

1 *See MSRB Reports*, Vol. 14, No. 3 (June 1994) at 14.
2 *Id.*
3 *See MSRB Reports*, Vol. 14, No. 4 (August 1994) at 24.

federal office, such as the House of Representatives, the Senate or the Presidency.

You ask whether rule G-37 unfairly impinges upon Governor [name deleted] equal protection and freedom of speech and association rights in the context of the Presidential election since he is, at this time, the only candidate with respect to whom those covered by the rule face "disqualification" from municipal securities business for making contributions. You also state that rule G-37 violates the First Amendment rights of association or speech by limiting the ability of municipal finance professionals to contribute to Governor [name deleted] presidential campaign. In its order approving rule G-37, the Securities and Exchange Commission stated that:

> any resulting hardship to candidates for federal office who are currently local officials is not a reason for eliminating these requirements. The MSRB cannot overlook potential conflicts of interest solely because there are candidates for the same federal office who do not face the same conflicts. In any event, the resulting burden to current local officials does not appear to be significant.[4]

The Board believes that rule G-37 is not the product of governmental action and is not subject to Constitutional review. However, as you may be aware, these issues currently are pending before the D.C. Court of Appeals.

You ask whether the creation of the District of Columbia Financial Responsibility and Management Assistance Authority means that the President of the United States is an "official of an issuer" and that all candidates for President now fall under rule G-37. Rule G-37(g)(vi) defines "official of an issuer" as "any person...who was, at the time of the contribution, an incumbent, candidate or successful candidate; (A) **for elective office of the issuer** which office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a broker, dealer or municipal securities dealer for municipal securities business by the issuer; or (B) **for any elective office of a state or political subdivision**, which office has authority to appoint any official(s) of an issuer." [Emphasis added]. The President does not hold an elective office of an "issuer" of municipal securities. In addition, the President is not, and would not become, an issuer official by virtue of his authority to appoint members to the D.C. Financial Responsibility and Management Assistance Authority because the Presidency is not an elective office of a state or political subdivision.

You ask a number of questions concerning what activities are permissible by those individuals covered by the rule. You ask whether the $250 *de minimis* contribution exception in rule G-37 applies to Presidential candidates. As noted previously, the only exception to rule G-37's absolute prohibition on business is for certain contributions made to issuer officials by municipal finance professionals. Specifically, contributions by such persons to officials of issuers would not invoke application of the prohibition if the municipal finance professional is entitled to vote for such official, and provided that any contributions by such municipal finance professional do not exceed, in total, $250 to each official, per election. The Board previously has stated that, if an issuer official is involved in a primary election prior to the general election, the municipal finance professional who is entitled to vote for such official may contribute up to $250 for the primary election and $250 for the general election to each such official.[5]

In regard to the Presidential general election campaign, all municipal finance professionals may contribute the $250 *de minimis* amount to an issuer official whose name has been placed on the ballot of the Presidential election in their state of residence without causing the dealer to be banned from business with the issuer. However, any municipal finance professional wishing to make a contribution to a Presidential general election campaign should first contact the Federal Election Commission (FEC) to determine the permissibility of such contributions under FEC regulations (*i.e.*, whether the candidate or nominee may accept individual contributions or whether they are precluded from doing so because the campaign is being "publicly funded").

In regard to the Presidential primary election campaign, all municipal finance professionals may contribute the $250 *de minimis* amount to an issuer official whose name has been placed on the Presidential primary ballot in their state of residence, or otherwise has been qualified to be considered at the state caucus or convention, without causing the dealer to be banned from business with the issuer.

You ask whether an individual covered by rule G-37 may raise money from others on behalf of Governor [name deleted]. Rule G-37(c) provides that no dealer or any municipal finance professional shall solicit any person or political action committee to make any contribution, or shall coordinate any contributions, to an official of an issuer with which the dealer is engaging or is seeking to engage in municipal securities business. A violation of rule G-37(c) does not trigger a two-year ban on engaging in municipal securities business with an issuer; however, if the appropriate enforcement agency finds

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4 *See* Securities Exchange Act Release No. 33868 (April 7, 1994) at 41-42; 59 FR 17621.
5 *See MSRB Reports*, Vol. 14, No. 3 (June 1994) at 13.

that a violation of rule G-37(c) has occurred, the enforcement agency will determine the appropriate sanction.[6] You ask whether the *de minimis* exception applies to solicited and bundled contributions of $250 and less. Solicitations of contributions are prohibited by the rule (for those covered); therefore, there is no *de minimis* exception.

You ask whether a covered individual may hold a party in his home for a Presidential candidate if contributions are raised at the party. The Board has stated that rule G-37 is not intended to restrict municipal finance professionals from engaging in personal volunteer work.[7] Personal expenses incurred by the municipal finance professional in the conduct of such volunteer work, which expenses are purely incidental to such work and unreimbursed by the dealer (*e.g.*, cab fares and personal meals), would not constitute a contribution. However, the expenses incurred for hosting a party to solicit contributions would be viewed as a contribution.[8] The Board also has stated that if a dealer's or a municipal finance professional's name appears on fundraising literature for an issuer official for which the dealer is engaging or seeking to engage in municipal securities business then there is a presumption that such activity is a solicitation by the dealer or municipal finance professional in violation of section (c) of the rule.[9]

Finally, you ask whether spouses and eligible children of covered personnel may contribute to a Presidential candidate. The Board has stated that contributions to issuer officials by municipal finance professionals' spouses and household members are not covered by rule G-37 unless these contributions are directed by the municipal finance professional, which is prohibited by section (d) of the rule.[10]

● *MSRB interpretation of May 31, 1995.*

6 The enforcement agencies are: for securities firms, the National Association of Securities Dealers; and for bank dealers, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or the Office of the Comptroller of the Currency.
7 *See MSRB Reports*, Vol. 14, No. 3 (June 1994) at 15.
8 *Id.*
9 *See MSRB Reports*, Vol. 14, No. 5 (December 1994) at 17.
10 *See MSRB Reports*, Vol. 14, No. 3 (June 1994) at 15.

FILING WITH SEC

Changes Proposed to the CDI System

Route To:	
Manager, Muni Department	●
Underwriting	●
Trading	●
Sales	○
Operations	○
Public Finance	●
Compliance	●
Training	○
Other	○

Proposed Changes Filed

The Board has filed proposed changes to the operation of its CDI System. The changes will permit the CDI System to process material event notices that may be sent to the Board after the July 3, 1995, effective date of certain amendments to Commission Rule 15c2-12 on municipal securities disclosure.

Questions about the proposed changes may be directed to Marianne I. Dunaitis, Assistant General Counsel, or Thomas A. Hutton, Director of MSIL.

On May 24, 1995, the Board filed with the Securities and Exchange Commission (Commission)[1] proposed changes to the operation of its Continuing Disclosure Information (CDI) System of the Municipal Securities Information Library™ (MSIL™) system.[2] The CDI System accepts and electronically disseminates voluntary submissions of official disclosure notices relating to outstanding issues of municipal securities, *i.e.*, continuing disclosure information. Once approved by the Commission, the changes will permit the CDI System to process material event notices that may be sent to the Board after the July 3, 1995, effective date of certain amendments to Commission Rule 15c2-12 on municipal securities disclosure.

BACKGROUND

On November 10, 1994, the Commission approved amendments to its Rule 15c2-12 which prohibit dealers from underwriting issues of municipal securities unless the issuer commits, among other things, to provide notice of material events to the Board's CDI System or to all Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and to the applicable state information depository.[3] In addition, the Rule prohibits dealers from recommending municipal securities without having a system in place to receive material events notices.[4]

The Board has proposed certain changes to the CDI System consistent with the new Commission requirements. The changes are interim changes to the System to allow it to accept and disseminate material event notices received after the July 3, 1995, effective date of the amendments to Rule 15c2-12. A permanent System designed to process more and longer submissions is currently under development and is expected to be ready for operation by the end of 1995.[5]

PROPOSED INTERIM CHANGES TO THE CDI SYSTEM

There are four areas of change in the interim System. First, the enrollment procedure will be discontinued. As currently operated, an issuer must enroll in the System and receive a unique identification number and a personal identification number before documents are accepted from the issuer. The enrollment procedure was designed to provide a measure of security that each submission is authentic and intended for public dissemination. The recent amendments to Rule 15c2-12 contemplate that the CDI System will accept material event notices from any issuer or its agent. Therefore, the enrollment procedure is no longer feasible.

While discontinuing the enrollment procedure leaves the Board without a verification mechanism for submissions, the Commission has stated that NRMSIRs will not be required to verify the accuracy of the information submitted, only to accurately convey the information.[6] The Board similarly asserts that it is not required to undertake to verify the authenticity or accuracy of documents submitted, but that it will attempt to ensure accurate dissemination of documents accepted into the System.

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1 File No. SR-MSRB-95-6. Comments submitted to the Commission should refer to this file number.

2 The Municipal Securities Information Library system and the MSIL system are trademarks of the Board. The MSIL™ system, which was approved in Securities Exchange Act Release No. 29298 (June 13, 1991), is a central facility through which information about municipal securities is collected, stored and disseminated.

3 Sec. Exch. Act Rel. No. 34961 (Nov. 10, 1994). This provision of the Rule will become effective on July 3, 1995.

4 The effective date of this provision of the Rule is January 1, 1996.

5 For the interim System, the price will remain $16,000 for an annual subscription. The price for the permanent System will be reviewed for any appropriate adjustment.

6 Sec. Exch. Act Rel. No. 34961 at 51 n.155 (Nov. 10, 1994).

In the second change to the operation of the CDI System, to assist users of the System in identifying a submission as a material event notice, the Board has modified the cover sheet for use by submitters.[7] The modified cover sheet will help to afford limited assurance to subscribers that the submission is authentic and intended for disclosure to the market as a material event notice. However, the Board will nevertheless attempt to disseminate through the interim System those documents not accompanied by the cover sheet, if the document refers in its title to one of the 12 enumerated "material events" set forth in Rule 15c2-12.

The third area to be changed relates to the length of documents submitted to the System and how they will be handled. Currently, the CDI System disseminates only those documents that do not exceed three pages. The current System was designed with the capability to process about 100 such submissions a day. To open up the System to longer documents, the interim System will accept and disseminate submissions of up to 10 pages, exclusive of the cover sheet. It is expected that the capacity of the interim System will allow for processing and electronically disseminating about 200 10-page documents a day. In addition, should a submission exceed 10 pages, the first 10 pages and the cover sheet will be disseminated, with a notice to subscribers that the submission exceeds 10 pages. The System then will make available a copy of the complete submission to any subscriber upon request, by express or regular mail, at the subscriber's expense.[8]

Fourth, the hours during which the CDI System will accept submissions will be expanded. Currently available to receive submissions from 9 a.m. to 4 p.m., Eastern Time, the System will accept documents for an additional two hours, from 8 a.m. to 5 p.m., Eastern Time. Submissions will continue to be disseminated to subscribers after 5 p.m. The additional hours will allow more flexibility for submitters, especially those on the West Coast.

Regarding processing time, the Commission stated in the Release approving the amendments to Rule 15c2-12 that 15 minutes might be an appropriate turnaround time for dissemination of material event notices by NRMSIRs, but that it would further discuss the issue during the NRMSIR recognition process. The CDI System had previously processed documents received by facsimile or modem in about 15 minutes, but with a much smaller volume of submissions than is currently anticipated. The Board will use its best efforts to maintain a quick turnaround time for documents sent by facsimile and modem to the interim System. The Board will ensure that any document with a voluntary cover sheet received by facsimile, modem or mail will be disseminated the same day it is received. Depending upon the volume of documents received, documents that refer to any one of the 12 enumerated material events in their title but do not have voluntary cover sheets will be disseminated on the same day, if possible, but documents with cover sheets have higher dissemination priority.

The changes to the interim CDI System will not be effective until approved by the Commission. The Board believes that approval of the changes to the interim CDI System will allow it to process material event notices to be received after July 3, 1995, as well as give it sufficient time and experience to determine the permanent changes needed, in consultation with the Commission as well as potential users of the System, including NRMSIRs. ● May 24, 1995

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[7] The cover sheet requests information regarding the issuer, the municipal security at issue, the type of material event being disclosed, and the person submitting the notice. A sample cover sheet is contained on page 11 of this issue.

[8] Copies will be charged at 20 cents a page, plus any applicable sales tax, and the cost of postage or express mail. Complete copies of submissions will also be available in the Board's Public Access Facility for review or copying at the same charge.

MATERIAL EVENT NOTICE COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board or to all Nationally Recognized Municipal Securities Information Repositories, and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:_____

Issuer's Six-Digit CUSIP Number(s): _____

_____

or Nine-Digit CUSIP Number(s) to which this material event notice relates: _____

_____

Number of pages of attached material event notice: _____

Description of Material Event Notice (Check One):

1. ___ Principal and interest payment delinquencies
2. ___ Non-payment related defaults
3. ___ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ___ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ___ Substitution of credit or liquidity providers, or their failure to perform
6. ___ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ___ Modifications to rights of security holders
8. ___ Bond calls
9. ___ Defeasances
10. ___ Release, substitution, or sale of property securing repayment of the securities
11. ___ Rating changes
12. ___ Failure to provide annual financial information as required
13. ___ Other material event notice (specify)_____

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name:_____ Title:_____

Employer:_____

Address:_____

City, State, Zip Code:_____

Voice Telephone Number:(_____)_____

Please print the material event notice attached to this cover sheet in 10-point type or larger. The cover sheet and notice may be faxed to the MSRB at (703) 683-1930. Contact the MSRB at (202) 223-9503 with questions regarding this form or the dissemination of this notice.

ATTENTION ! ATTENTION

Syndicate Expenses: Per Bond Fee for Bookrunning Expenses

Route To:

Manager, Muni Department	●
Underwriting	●
Trading	○
Sales	○
Operations	○
Public Finance	●
Compliance	●
Training	○
Other	○

Notice: Rule G-11

This notice addresses the appropriateness of a per-bond fee for the bookrunning expenses or management fees of the senior syndicate manager.

Questions about this notice may be directed to Marianne I. Dunaitis, Assistant General Counsel.

Board rule G-11, concerning syndicate practices, among other things, requires syndicates to establish priorities for different categories of orders and requires certain disclosures to syndicate members which are intended to assure that allocations are made in accordance with those priorities. In addition, the rule requires that the manager provide certain accounting information to syndicate members. In particular, rule G-11(h)(i) provides that: "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."[1] The purpose of this provision is to provide information useful to syndicate members in determining whether to participate in a syndicate account. The rule also requires that the senior syndicate manager, at or before final settlement of a syndicate account, furnish to the syndicate members "an itemized statement setting forth the nature and amount of all actual expenses incurred on behalf of the syndicate." One of the purposes of this section is to render managers accountable for their handling of syndicate funds.

The Board has received inquiries regarding the appropriateness of a per-bond fee for the bookrunning expenses or management fees of the senior syndicate manager. Discretionary fees for clearance costs and management fees may be expressed as a per-bond charge. These expenses, however, must be disclosed to members prior to the submission of a bid or prior to the execution of a purchase contract with the issuer; for example, in the Agreement Among Underwriters. The itemized statement setting forth a detailed breakdown of actual expenses incurred on behalf of the syndicate, such as advertising, printing, legal, computer services, etc., must be disclosed to syndicate members at or before final settlement of the syndicate account. With respect to these fees, the Board has previously noted that managers who assess a per-bond charge for designated sales may be acting in violation of rule G-17 if the expenses charged to members bear no relation to or otherwise overstate the actual expenses incurred on behalf of the syndicate.[2] The Board believes a per-bond fee creates the appearance that it is not an actual expense related to and incurred on behalf of the syndicate.

The Board is concerned about the charging of syndicate expenses and compliance with rule G-11. Managers should exercise care in accounting for syndicate funds, and any charge that has not been disclosed to members prior to the submission of a bid or prior to the execution of a purchase contract may be charged to syndicate members only if it is an actual expense incurred on behalf of the syndicate. The Board will continue to monitor syndicate practices and will notify the appropriate enforcement agency of any complaints it receives in this area. Syndicate members are encouraged to notify directly the appropriate enforcement agency of any violations of these provisions. ● June 14, 1995

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[1] The rule defines management fees to 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."

[2] Syndicate Managers Charging Excessive Fees for Designated Sales (July 29, 1985) *MSRB Manual* (CCH) paragraph 3581.

FILING —WITH— SEC

Reporting Inter-Dealer Transactions to the Board: Rule G-14

Route To:

Manager, Muni Department	●
Underwriting	○
Trading	●
Sales	●
Operations	●
Public Finance	○
Compliance	●
Training	○
Other	○

Amendment Filed

Under the proposed amendment, dealers who clear transactions for other dealers would be required to identify the dealers that executed the transaction when submitting transaction information to the Board under rule G-14.

Questions about the proposed amendment may be directed to Larry M. Lawrence, Policy and Technology Advisor.

On June 22, 1995, the Board filed with the Securities and Exchange Commission (Commission) a proposed amendment to rule G-14, on reports of sales or purchases, and associated transaction reporting procedures.[1] The proposed amendment would enhance the Board's transaction reporting pilot program to provide improved support of market surveillance and enforcement of Board rules. Under the proposed amendment, brokers, dealers, and municipal securities dealers (dealers) who clear transactions for other dealers would be required to identify the dealers that executed the transaction when submitting transaction information to the Board under rule G-14. The Board has requested that the proposed amendment become effective on July 24, 1995.

BACKGROUND

The Board's transaction reporting program has been collecting and publicly reporting information about inter-dealer transactions in municipal securities since the program began operation on January 23, 1995. The program produces daily, public reports (daily reports) of certain inter-dealer transactions and is building a surveillance database of detailed records about every inter-dealer transaction that has been successfully compared by the automated comparison system.

Under rule G-14, transaction data for the daily reports and surveillance database is submitted by dealers, through the automated comparison system, to the Board's designated agent, National Securities Clearing Corporation (NSCC), the central facilities provider.

NEED FOR EXECUTING BROKER INFORMATION

One purpose of the transaction reporting program is the creation of an "integrated audit trail" of transaction information that will be available to the Commission and the agencies charged with enforcement of Board rules (the National Association of Securities Dealers [NASD], the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve System). Audit trail information to be made available from the surveillance database will consist of electronic trade records that the enforcement agency may organize by the time and date of trade in a given security. The audit trail records include the identity of the dealers involved in the trade, the par value, price, trade date, etc. The proposed amendment will help to ensure that the audit trail contains the identity of all dealers involved in inter-dealer municipal securities transactions.

Currently, transaction information submitted to the Board under rule G-14 through the automated comparison system always includes a numerical identifier for the dealer that "clears" the transaction through NSCC. In many cases, this dealer – called the "clearing broker" – is also the dealer that executed the transaction. In other cases, the "clearing broker" submits the trade on behalf of another dealer. For example, in a clearing-introducing broker arrangement, the clearing broker may submit transaction information on behalf of the introducing broker. In this case, the introducing broker generally is identified as the "executing broker" in the comparison system.

During the first months of transaction reporting operations, the Board has noted that a substantial number of transactions submitted under rule G-14 do not include any indication whether the trade is actually effected by the "clearing broker" or on behalf of another dealer that may have executed the transaction and cleared it through the clearing broker.[2] Under these circumstances, the surveillance database does

[1] File No. SR-MSRB-95-12.

[2] Clearing brokers may optionally include the identity of the introducing brokers when reporting a transaction, in which case the introducing broker identifiers are entered into the Board's surveillance database. The database lacks the introducing broker identifier of transactions for which the clearing broker chooses not to identify the introducing broker.

not reflect the identity of all dealers involved in the transaction. The identity of the actual "executing broker" on each transaction is critical to the surveillance database and to monitoring individual dealers' compliance with the requirement for trade comparison on the night of trade date.[3]

The proposed rule change would require dealers who clear transactions for other dealers to identify the executing dealers involved in the trade.[4] Clearing brokers would have to ensure the presence of the executing broker identification for both the "buy side" and the "sell side" for every transaction submitted to the automated comparison system. Each executing broker that has not yet been assigned an executing broker identifier and that executes inter-dealer transactions in municipal securities would have to request assignment of a symbol.[5]

The tables below illustrate the requirements of the proposed amendment. Assume the following:

- Introducing firm *A* has a standing arrangement to clear its transactions through clearing firm *123*,
- Introducing firm *B* has a standing arrangement to clear its transactions through clearing firm *789*, and
- On September 1, *A* purchases municipal securities from *B*.

To report the transaction in compliance with the proposed amendment, the clearing firms on September 1 must report the information shown in Table One to the automated comparison system.

TABLE ONE

Reporting Party	Information to Be Reported			
	Clearing Broker (Buyer's Side)	Clearing Broker (Seller's Side)	Executing Broker (Buyer)	Executing Broker (Seller)
123	123	789	A	B
789	123	789	A	B

If the information reported by the two clearing firms agrees in the details of the transaction (CUSIP number, par, price, etc.), NSCC successfully compares the trade and forwards the transaction information to MSRB, which stores the information in the surveillance database. NSCC does not require that the details match with respect to the executing broker identities, and will not require it under the proposed amendment.

Had either clearing broker been trading for its own account, it would have named itself as the "executing broker." In the above example, if clearing broker *123* had traded for its own account, the information would have been reported as shown in Table Two.

TABLE TWO

Reporting Party	Information to Be Reported			
	Clearing Broker (Buyer's Side)	Clearing Broker (Seller's Side)	Executing Broker (Buyer)	Executing Broker (Seller)
123	123	789	123	B
789	123	789	123	B

- June 22, 1995

TEXT OF PROPOSED AMENDMENT*

Rule G-14. Reports of Sales or Purchases

(a)–(b) No change.

Rule G-14 Transaction Reporting Procedures

(a) Inter-Dealer Transactions.

(i) Except as described in paragraph (ii) of this section (a), each broker, dealer and municipal securities dealer shall report all transactions with other brokers, dealers or municipal securities dealers to the Board's designee for receiving such transaction information. The Board has designated National Securities Clearing Corporation (NSCC) for this purpose. A broker, dealer or municipal securities dealer shall report a transaction by submitting or causing to be submitted to NSCC information in such format and within such timeframe as required by NSCC to produce a compared trade for the transaction in the initial comparison cycle on the night of trade date in the automated comparison system operated by NSCC. Such transaction information may be submitted to NSCC directly or to another registered clearing agency linked for the purpose of automated comparison with NSCC. The broker, dealer or municipal securities dealer may employ an agent that is a

[3] Clearing and introducing brokers are jointly responsible for submitting transaction information for automated comparison. *See* "Enforcement Initiative," *MSRB Reports*, Vol. 14, No. 3 (June 1994) at 35. Therefore, the clearing broker bears the responsibility for obtaining accurate and timely information from its executing brokers and submitting it in a timely and accurate manner. However, charting the performance of individual executing brokers in the comparison system would be helpful both to the clearing brokers and to the enforcement agencies, since it may indicate which executing brokers are having difficulties in providing timely and accurate information to their clearing brokers.

[4] A clearing broker that uses an "omnibus" account to handle introducing brokers' trades might have to change its practices to identify the introducing broker in each case, rather than using its own clearing broker symbol.

[5] The NASD assigns executing broker symbols to brokers, dealers, and municipal securities dealers. A self-clearing broker may use an NASD-assigned symbol to identify itself in its role as executing broker, or it may use its NSCC-assigned broker number for this purpose. The executing dealer identities submitted by the clearing brokers will not need to match in order for the trade to be successfully compared in the automated comparison system.

* Underlining indicates additions.

member of NSCC or a registered clearing agency for the purpose of submitting transaction information; however, the primary responsibility for timely and accurate submission continues to rest with the broker, dealer or municipal securities dealer that executed the transaction.

The information submitted in accordance with this procedure shall include the identity of the brokers, dealers or municipal securities dealers that execute the transaction in addition to the identity of the entities that clear the transaction. If clearing/introducing broker arrangements are used for transactions, the introducing brokers shall be identified as the "executing brokers." If the settlement date of a transaction is known by the broker, dealer or municipal securities dealer, the report made to NSCC also shall include a value for accrued interest in the format prescribed by NSCC.

(ii) No change.

ATTENTION ! ATTENTION

Transactions in Municipal Securities with Non-Standard Features Affecting Price/Yield Calculations: Rule G-17

Route To:

- Manager, Muni Department ●
- Underwriting ○
- Trading ●
- Sales ●
- Operations ●
- Public Finance ○
- Compliance ●
- Training ○
- Other ○

Notice

Dealers should take particular effort to ensure that customers are aware of any non-standard feature of a security. If price/yield calculations are affected by anomalies due to a non-standard feature, this may also constitute a material fact about the transaction that must be disclosed to the customer.

Questions about this notice may be directed to Harold L. Johnson, Deputy General Counsel.

Rule G-15(a) generally requires that confirmations of municipal securities transactions with customers state a dollar price and yield for the transaction. Thus, for transactions executed on a dollar price basis, a yield must be calculated; for transactions executed on a yield basis, a dollar price must be calculated. Rule G-33 provides the standard formulae for making these price/yield calculations.

It has come to the Board's attention that certain municipal securities have been issued in recent years with features that do not fall within any of the standard formulae and assumptions in rule G-33, nor within the calculation formulae available through the available settings on existing bond calculators. For example, an issue may have first and last coupon periods that are longer than the standard coupon period of six months.

With respect to some municipal securities issues with non-standard features, industry members have agreed to certain conventions regarding price/yield calculations. For example, one of the available bond calculator settings might be used for the issue, even though the calculator setting does not provide a formula specifically designed to account for the non-standard feature. In such cases, anomalies may result in the price/yield calculations. The anomalies may appear when the calculations are compared to those using more sophisticated actuarial techniques or when the calculations are compared to those of other securities that are similar, but that do not have the non-standard feature.

The Board reminds dealers that, under rule G-17, dealers have the obligation to explain all material facts about a transaction to a customer buying or selling a municipal security. Dealers should take particular effort to ensure that customers are aware of any non-standard feature of a security. If price/yield calculations are affected by anomalies due to a non-standard feature, this may also constitute a material fact about the transaction that must be disclosed to the customer.

● June 12, 1995

ATTENTION ! ATTENTION

Three Day Settlement: Rules G-12(b) and G-15(b)

Route To:

- Manager, Muni Department ●
- Underwriting ●
- Trading ●
- Sales ●
- Operations ●
- Public Finance ●
- Compliance ●
- Training ○
- Other ○

Notice

This interpretive guidance is provided to clarify the application of the T+3 requirements to certain types of transactions.

Questions about this notice may be directed to Judith A. Somerville, Uniform Practice Specialist.

The T+3 requirements of rules G-12(b) and G-15(b) were implemented on June 7, 1995.[1] Regular-way settlement now occurs in three rather than five business days as defined in rules G-12(b) and G-15(b) on settlement dates. The Board has received inquiries concerning the application of three day settlement (T+3) requirements to certain types of transactions. The following interpretive guidance is provided to clarify the application of the T+3 requirements to those transactions.

APPLICATION OF T+3 REQUIREMENTS OF MUNICIPAL SECURITIES WITH PUT PROVISIONS AND OTHER INTERPRETIVE ISSUES

The Public Securities Association requested clarification of the application of the T+3 requirements to transactions between remarketing agents and investors in municipal securities with put provisions.

Based on representations noted in the PSA's letter about the current settlement practices in these securities, the Board provided the following clarification concerning the application of the T+3 rules to these transactions.

Board rules G-12(b) and G-15(b) require that settlement dates for "regular-way" transactions be three days after trade date (T+3). The rules also state that the settlement date for "when-issued" transactions is a date agreed to by the parties and the settlement date for "cash" transactions is the trade date. For transactions that are neither regular-way, when-issued or cash transactions, the rules state that the settlement date is "a date agreed upon by the parties, provided, however, that a broker, dealer or municipal securities dealer shall not effect or enter into a transaction for the purchase or sale of a municipal security that provides for payment of funds and delivery of securities later than the third business day after the date of the transaction unless expressly agreed to by the parties, at the time of the transaction."

The terms of indentures governing municipal securities containing put provisions generally require that investors notify remarketing agents of their intention to exercise a put option within a specific time period prior to the "redemption date" for the put, *e.g.*, notification must be given one week prior to the date that payment of proceeds is made to investors who exercise a put. Once a remarketing agent is advised of an investor's intention to exercise the put option, the remarketing agent generally attempts to sell the security to another investor. The current practice of remarketing agents is to set settlement dates for transactions in these securities to coincide with the "redemption date." Setting settlement dates in this manner allows the remarketing agent to collect moneys from new investors on the same day as payment must be made to those investors exercising puts. In some cases, this results in more than three days between execution of a transaction and settlement. For example, if notice of a put must be given one week before "redemption date" for the put, the remarketing agent may set the settlement date for the customer exercising the put to coincide with the redemption date. The remarketing agent then may market the securities over the next several days. Each trading day, the remarketing agent sets the settlement date for new investors to coincide with the redemption date. Thus, some transactions may settle on T+5, while others may settle on T+4, T+3, etc.

The Board believes that these transactions fall under the provisions of the rules stating that settlement date may occur later than the third business day after the trade date if the settlement date is expressly agreed to by the parties at the time of the transaction. Thus, if a remarketing agent and investor wish to agree upon a settlement date to coincide with the date that proceeds are paid to investors exercising puts, as specified by the terms of a security, rules G-12(b) and G-15(b) permit the settlement date to be set in accordance with the agreement of the parties.

[1] *See* "Developments Concerning T+3 Settlement," *MSRB Reports*, Vol. 15, No. 1 (April 1995) at 29.

ADDITIONAL QUESTIONS

Are "when, as and if issued" municipal securities required to settle in three business days?
No. When, as and if issued municipal securities are exempt from three day settlement. These transactions will continue to settle on a date agreed to by the parties, which is typically set to be on or a few days after the "closing date" for the issue.

Do the T+3 requirements apply to municipal "forwards?"
The Board understands a municipal forward to be an agreement entered into between an issuer and investors in which the investors agree to purchase bonds to be issued by the issuer at a future date. As such, the Board believes that transactions in forwards are "when, as and if issued" transactions and thus are exempt from the requirements of T+3 settlement.

- June 12, 1995

VOLUME 15, NUMBER 2

MSRB REPORTS

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ATTENTION
—— ! ——
ATTENTION

Continuing Education Program Update: Regulatory Element Questions and Answers

Route To:

Manager, Muni Department	●
Underwriting	○
Trading	○
Sales	○
Operations	○
Public Finance	○
Compliance	●
Training	●
Other	○

Notice

The Board is reprinting sections of an NASD Notice to Members (95-35) which reviews the procedures surrounding the implementation of the Regulatory Element of the Continuing Education Program. The notice has been modified, where applicable, to address bank dealers and the Board's continuing education rule.

Questions about this notice may be directed to Ronald W. Smith, Legal Associate, or Loretta J. Rollins, Director of Professional Qualifications.

EXECUTIVE SUMMARY

On February 8, 1995, the Securities and Exchange Commission (SEC) approved rules submitted to it by eight self-regulatory organizations (SROs) – the American Stock Exchange, the Chicago Board Options Exchange, the Chicago Stock Exchange, the Municipal Securities Rulemaking Board, the National Association of Securities Dealers, the New York Stock Exchange, the Pacific Stock Exchange, and the Philadelphia Stock Exchange – for the creation of a Continuing Education Program (the Program). This Program is comprised of two parts – the Regulatory Element and the Firm Element. Both Elements are effective July 1, 1995, with the Firm Element to be implemented in two parts, as described below. This notice restricts itself to the procedures surrounding the implementation of the Regulatory Element of the Program.

THE CONTINUING EDUCATION PROGRAM

The mandatory Continuing Education Program approved by the SEC on February 8, 1995,[1] is a two-part program. Effective July 1, 1995, the Program requires periodic participation in computer-based training in regulatory matters – the Regulatory Element – and the establishment of ongoing training programs by firms to keep covered employees up-to-date on job- and product-related subjects – the Firm Element. This Program helps ensure that registered persons stay current on products, markets, and rules to the ultimate benefit of the investing public.

PERSONS COVERED BY THE CONTINUING EDUCATION PROGRAM

Every person required to be registered in any capacity with an SRO who has been registered for 10 years or less is covered by the Regulatory Element, and must satisfy the requirements within 120 calendar days after the second, fifth, and tenth anniversaries of his or her initial securities registration. Also covered are those who have been registered more than 10 years and who have been the subject of a significant disciplinary action (suspension, fine of $5,000 or more, or a statutory disqualification) during the most recent 10 years. Those registered more than 10 years who have not been the subject of a significant disciplinary action are not covered by the requirements of the Regulatory Element.

The Firm Element requirements apply to all brokers, dealers, bank dealers and their "covered persons." Covered persons are registered salespeople, traders, investment bankers, and others who conduct a securities business with public customers, and the immediate supervisors of such persons. The term "customer" applies to retail, institutional, and investment banking customers, but does not include other brokers and dealers.

HOW THE CONTINUING EDUCATION PROGRAM WILL BE ADMINISTERED

The Regulatory Element of the Program will be delivered through computer-based training in which participants work through problems related to realistic scenarios at computer terminals in an NASD PROCTOR Certification Testing Center (PROCTOR Center). Individuals will be subject to the Regulatory Element based on their initial registration date or, if applicable, the date of the most recent significant disciplinary action against them. For example, persons registered in October 1993, must first participate in the Regulatory Element within 120 calendar days after their second anniversary of continuous registration in October 1995. In October 1998, they again participate to complete their five-year cycle requirement. In October 2003, they again par-

[1] The Board's continuing education requirements are contained in rule G-3(h).

ticipate to complete their 10-year anniversary requirement. Thereafter, they are exempt from the Regulatory Element if they have had no significant disciplinary action in the most recent 10-year period.

The Firm Element is developed and administered by firms and may include written materials, videos, audio tapes, classroom training, direct broadcasts, or other media presentations. Firms must conduct a training-needs analysis and have their written training plans completed by July 1, 1995. The Firm Element will begin for all "covered persons" no later than January 1, 1996, in accordance with their firm's written training plans. The Regulatory and Firm Elements focus on increased education and training, rather than periodic retesting.

REGULATORY CONSEQUENCES FOR NON-COMPLIANCE

Failure to comply with Firm or Regulatory Element requirements may subject the firm and individual to disciplinary action. Non-compliance with Regulatory Element requirements will result in an individual's registration being deemed inactive until he or she fulfills all program requirements. If an individual is inactive, that individual may not engage in, or be paid for, activities requiring registration.

QUESTIONS AND ANSWERS REGARDING THE REGULATORY ELEMENT

Who is Required to Participate in the Regulatory Element and How Will They be Notified

Q: Who is covered by the Regulatory Element?

A: Each person registered for 10 years or less is covered by the Regulatory Element and must take the regulatory computer-based training within 120 calendar days after the second, fifth, and tenth anniversaries of his or her initial registration date. In addition, registered persons who have been the subject of a significant disciplinary action during the last 10 years (from July 1, 1995), or become subject to a significant disciplinary action after that date, are subject to the Regulatory Element requirements. See Significant Disciplinary Actions below, for more information.

Q: What if an individual has multiple registrations, such as a Series 52 in 1988 and a Series 7 in 1991? What date determines when that person must participate in the Regulatory Element?

A: The date of the initial registration (1988) applies, provided that the person has remained continuously registered since that time and has had no significant disciplinary action as described below.

Q: Certain municipal securities representatives and principals were registered with one or more bank regulators pursuant to MSRB rules before becoming associated with an NASD member. How is their initial registration date calculated?

A: The CRD may recognize such persons as being registered less than 10 years and send that person's firm a Regulatory Element notice. However, if the person had been previously registered for more than 10 years, and such person has no significant disciplinary history that makes the person subject to the Regulatory Element, he or she is not required to meet the Regulatory Element requirements. The firm receiving a notice for such a person should advise its CRD Quality and Service Team in writing that the person is exempt because he or she has been registered for more than 10 years. The letter must include the amount of time registered before becoming associated with an NASD firm and the bank regulatory organization or organizations with which the person was registered so that this information can be verified. Unless that person is subsequently covered by the Regulatory Element, he or she will not receive another CRD notice.

Q: What if a person's registration temporarily lapses?

A: If a person ceases to be registered for less than two years, he or she will maintain the original registration date but will have to participate in any Regulatory Element program that he or she may have missed during the lapsed period. For example, if a person's registration lapses at four and one-half years, and that person wishes to reactivate at what would be his or her six-year anniversary, he or she must complete the fifth-year Regulatory Element requirement before the registration can be reactivated.

Q: What if the person ceases to be registered for two or more years?

A: That person begins the entire registration process anew. That is, he or she must take the appropriate qualification examination(s) and reenter the Regulatory Element at the beginning of a new 10-year cycle.

Q: Is anyone exempt from the Regulatory Element of the Program?

A: Those who have been registered more than 10 years and who have not been the subject of a significant disciplinary action during the most recent 10 years are exempt from the Regulatory Element. However, if an individual incurs a significant disciplinary action at any time in the future, or is ordered by a state securities regulator, an SRO, the appropriate bank enforcement authority, or the SEC to reenter the Regulatory

Element, that person will be subject to the Regulatory Element requirements in a new 10-year cycle.

Q: How will firms be notified of those who are required to satisfy the Regulatory Element requirements?

A: Beginning in June 1995, 30 days before the anniversary, the CRD will issue notices to those whose second, fifth, or tenth anniversary of their initial securities registration or posting of a significant disciplinary matter occurs.[2] The notices will state that beginning with the date of the individual's second, fifth, or tenth anniversary, he or she will have 120 calendar days to satisfy the Regulatory Element, by completing a computer-based training session dealing with regulatory matters relevant to conducting a securities business of any kind. The individual must then make an appointment to take the computer-based training at any PROCTOR Center before the end of the 120-day period, or have his or her securities registration be made inactive. A person with an inactive securities registration cannot perform or be paid for any activities that require a securities registration.

Significant Disciplinary Actions

Q: What is a significant disciplinary action?

A: A significant disciplinary action occurs when a registered person:

- becomes subject to a statutory disqualification pursuant to the Securities Exchange Act of 1934. Such disqualifications include bars, suspensions, and civil injunctions involving securities matters, any felony convictions, or a misdemeanor conviction that involves investments or an investment-related business, or any fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses; or

- becomes subject to suspension or to the imposition of a $5,000 or more fine for violating any provision of any securities law or regulation, or any agreement with, or rule or standard of conduct of, any securities governmental agency, securities SRO, appropriate bank enforcement authority or as imposed by any such regulatory agency, SRO or bank enforcement authority in connection with a disciplinary proceeding; or

- is ordered to reenter the Regulatory Element as a sanction in a disciplinary action by any securities governmental agency, securities SRO or appropriate bank enforcement authority.

Q: How does the imposition of a significant disciplinary action affect a person's status in the Regulatory Element?

A: A significant disciplinary action "resets the clock" for an individual who is already covered by, or who has previously met the requirements of, the Regulatory Element. The individual must successfully complete Regulatory Element sessions within 120 days of the second, fifth, and tenth anniversaries of the effective date associated with that disciplinary action.

Q: What about those individuals with significant disciplinary actions within the last 10 years in their records as of July 1, 1995?

A: Those individuals with significant disciplinary actions within the last 10 years in their records as of July 1, 1995, are subject to the Regulatory Element requirements.

Types of Reports Issued by CRD to Firms

Q: What types of reports will CRD provide firms to help them track the status of their registered employees subject to the Regulatory Element?

A: CRD will issue several types of individual notifications for securities firm personnel:

- An Initial Notice is sent 30 days before the registered representative's anniversary date to remind the individual of an approaching registration or disciplinary anniversary, and to inform them of the associated Continuing Education Program requirement. The notification will include the beginning and ending dates of the 120-day window, as well as notice of authorization to schedule a training session for any available date in that window.

- A Second Notice is sent if a registered person has not met his or her obligations by the last 30 days of the 120-day window. The notice will advise the individual of his or her status and will include a reminder of the consequences of not complying with the Regulatory Element requirements.

[2] Since bank dealer personnel are not registered on the CRD system, bank dealers will have to establish internal procedures for tracking anniversary dates of initial securities registrations or postings of significant disciplinary matters.

• A Notice of Inactive Status is sent to inform the registered person that because the Regulatory Element computer-based training is not complete, his or her registration is no longer active and he or she may not perform, or be paid for, any activity that requires a securities registration.

• A Notice of Session Completion is sent when the registered person satisfies the Regulatory Element requirement by completing a computer-based training session, or by approved waiver. If applicable, the notification will indicate that the person completed all pending requirements of the Regulatory Element.

For bank dealer personnel, a Notice of Session Completion is sent when the registered person completes a computer-based training session.

By the middle of each month, CRD will advise securities firms with summary status reports. The Requirement Summary report will show registered persons who:

• have begun their 120-day window;

• have 90 days remaining in their 120-day window;

• have 60 days remaining in their 120-day window; or

• have 30 days remaining in their 120-day window.

Other summary reports will show registered persons who:

• have completed their requirement within the past 30 days (Completion Summary);

• have had their registration changed to inactive within the past 30 days (Inactive Summary);

• have remained inactive for more than 30 days (Previously Inactive Summary); or

• have had their registration status changed from inactive to another status within the past 30 days (Previously Inactive/Satisfied Summary).

Administration of the Computer-Based Training of the Regulatory Element and Scheduling Computer-Based Training Sessions at NASD PROCTOR Centers

Q: Where will a person take the computer-based training of the Regulatory Element and how long will the training last?

A: The computer-based training will be administered at any one of the 55 NASD PROCTOR Centers. A person will have up to three hours to complete the training session.

Q: How does a person make an appointment at a PROCTOR Center?

A: The individual or his or her firm can make an appointment to take the Regulatory Element computer-based training by calling a PROCTOR Center. The PROCTOR Center administrator will need to know:

• the person's name and social security number;

• the firm's name; and

• a telephone number where the PROCTOR administrator can reach the individual or his or her firm.

Due to the many computer-based training sessions and qualifications examinations administered at the PROCTOR Centers, individuals should be strongly encouraged to schedule their appointment as soon as possible within their 120-day window.

For bank dealer personnel to make an appointment at a PROCTOR Center to take the Regulatory Element computer-based training they must submit a completed Form U-10 along with the $75 fee. Questions about bank dealer personnel registration at PROCTOR Centers should be directed to the NASD.

Q: What will it cost to take the computer-based training at a PROCTOR Center and how will firms be charged?

A: The cost will be $75 for every computer-based training session taken at a PROCTOR Center. No-shows and those who cancel within 48 hours of a scheduled appointment will be charged $75.

Q: If a person does not complete the Regulatory Element computer-based training, how long must he or she wait before rescheduling another appointment at a PROCTOR Center?

A: A person may reschedule another appointment at a PROCTOR Center after waiting one day. Rescheduling will be done by the PROCTOR Center as soon as the Center's schedule permits. For this reason, it is important that registered persons do not wait until the last minute to schedule an appointment during their 120-day window. There will be another $75 charge for the rescheduled PROCTOR Center appointment.

Q: Can a person schedule or reschedule the Regulatory Element computer-based training after his or her 120-day window closes?

A: Yes. A person who is required to satisfy the Regulatory Element computer-based training requirement can schedule an appointment at a PROCTOR Center, up to two years after the close of his or her 120-day window. Remember, however, that the person whose 120-day window closes without satisfaction of the Regulatory Element requirements will have his or her registration made inactive. This means that the person may not conduct, or be paid for, any activities that require a securities registration. Furthermore, a person whose registration remains inactive for more than two years must requalify for his or her registration by examination and begin a new 10-year Regulatory Element cycle.

Subject Matter to be Covered by the Regulatory Element

Q: What topics will the Regulatory Element computer-based training cover?

A: The Regulatory Element computer-based training will cover topics of general applicability to all registered persons in seven modules during the training session. The areas covered in each module are:

- Registration and reporting;
- Communications with the public;
- Suitability;
- Handling customer accounts;
- Business conduct;
- Customer accounts, trade and settlement practices; and
- New and secondary offerings.

A content outline for the Regulatory Element module is available by calling the NASD Phone Center at (301) 590-6500.

Q: How will the material be presented in each module?

A: The interactive computer program contains "real-life" scenarios involving a registered person and a customer, and the person will be asked to choose the most appropriate response or responses to the facts in the story. The computer software will assess the individual's understanding of the topic and deliver tutorials about the subject if necessary. As the person works through each module's subject matter, the computer program provides him or her with immediate feedback as to whether each answer is correct or incorrect and why.

Q: Will the Regulatory Element computer-based training be the same for everyone?

A: The content of each training session will be the same for everyone because each person taking the computer-based training must complete all seven modules. However, because there are multiple scenarios in each of the seven modules and the scenarios are selected at random, it is unlikely that any two people will see exactly the same scenarios during the course of their computer-based training session.

Status of Persons Who Fail to Comply with the Requirements of the Regulatory Element

Q: What area the consequences of not complying with the Regulatory Element?

A: Any person who does not satisfy the Regulatory Element requirements will have his or her securities registration made inactive. This means that he or she may not engage in, or be paid for, activities that require a securities registration. He or she may not solicit or receive commissions on securities sales. If the person is not in sales and his or her duties require a securities registration, for example, as a Financial and Operations Principal, he or she may neither act in the registered capacity nor receive compensation for activities requiring registration.

Thus, it is important to schedule Regulatory Element computer-based training appointments early in the 120-day window in the unlikely event that the person does not complete the required training on the first attempt and has to reschedule.

● June 12, 1995

FILING WITH SEC

Delivery of Official Statements to the Board: Rule G-36

Route To:

Manager, Muni Department	●
Underwriting	●
Trading	○
Sales	○
Operations	○
Public Finance	●
Compliance	●
Training	○
Other	○
	○

Amendments Filed

The Board has filed proposed amendments to rule G-36, on delivery of official statements to the Board, and Form G-36(OS) to conform references to amended provisions of Commission Rule 15c2-12.

Questions about the amendments may be directed to Marianne I. Dunaitis, Assistant General Counsel, or Thomas A. Hutton, Director of MSIL.

On June 1, 1995, the Board filed with the Securities and Exchange Commission (Commission) proposed amendments to Board rule G-36, on delivery of official statements to the Board, and Form G-36(OS) to conform references to amended provisions of Commission Rule 15c2-12.

Board rule G-36 requires, among other things, that managing underwriters deliver to the Board copies of final official statements, along with Form G-36(OS), for most primary offerings of municipal securities, if an official statement was prepared. The Board enters the official statement into the Municipal Securities Information Library™ (MSIL™) system.[1] Rule G-36 and Form G- 36(OS) have been amended to update the citations to Rule 15c2-12 to correspond to the recently revised provisions of the Commission Rule. Form G-36(OS) also has been revised to make clear that any documents submitted to the Board with the Form will be publicly disseminated.

The amendments to rule G-36 and Form G-36(OS) will be effective on July 3, 1995. Any official statements to be submitted on or after that date should be accompanied by the revised Form which follows this notice. ● June 1, 1995

TEXT OF PROPOSED AMENDMENT*

Rule G-36. Delivery of Official Statements, Advance Refunding Documents And Forms G-36(OS) and G-36(ARD) to Board or its Designee

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

(i) The term "final official statement" shall mean a document or documents defined in Securities Exchange rule 15c2-12~~(e)~~(f) (3).

(ii) The term "primary offering" shall mean an offering defined in Securities Exchange Act rule 15c2-12~~(e)~~(f) (7).

(iii) No change.

(b) No change.

(c) Delivery requirements for Issues not Subject to Securities Exchange Act Rule 15c2-12.

(i) - (ii) No change.

(iii) This section shall not apply to primary offerings of municipal securities, regardless of the amount of the issue, if the issue qualifies for an exemption set forth in paragraph (1) of section ~~(c)~~(d) of Securities Exchange Act rule 15c2-12.

(d) - (g) No change.

[1] The Municipal Securities Information Library system and the MSIL system are trademarks of the Board. The MSIL system is a central facility through which information about municipal securities is collected, stored, and disseminated.

* Underlining indicates new language; strikethrough indicates deletions.

MSRB

DO NOT STAPLE THIS FORM

FORM G-36(OS) — FOR OFFICIAL STATEMENTS

1. NAME OF ISSUER(S): (1) _____

   (2) _____

2. DESCRIPTION OF ISSUE(S): (1) _____

   (2) _____

3. STATE(S) _____

4. DATED DATE(S): (1) _____ (2) _____

5. DATE OF FINAL MATURITY OF OFFERING _____ 6. DATE OF SALE _____

7. PAR VALUE OF OFFERING $ _____

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate) $ _____

9. IS THIS AN AMENDED OR STICKERED OFFICIAL STATEMENT? Yes ☐ No ☐

10. CHECK ALL THAT APPLY:

   a. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

   b. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

   c. ☐ This offering is exempt from SEC rule 15c2-12 under section (d)(1) of that rule. Section (d)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

11. MANAGING UNDERWRITER _____

12. NAME _____ PHONE _____
    (Must be an employee or officer of the underwriter named on line 11.)

13. **The undersigned hereby states that the above-described document is a final official statement relating to a primary offering of municipal securities and acknowledges that the document will be publicly disseminated.**

    Signed: _____

14. NAME _____ PHONE _____
    (Name of signer on line 13. Need not be repeated if same as on line 12.)

15. ORGANIZATION _____
    (Organization of signer on line 13. Need not be repeated if same as on line 11.)

The information provided on this form will be used by the Board to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter listed on line 11 will be sent an invoice if a rule A-13 assessment is due on the offering.

CONTINUED ON OTHER SIDE

16. MATURITY DATE | CUSIP NUMBER | MATURITY DATE | CUSIP NUMBER

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

☐ Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment: _____

_____

18. **Submit two copies of the completed form along with two copies of the official statement to MSRB, MSIL System, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.**

PUBLICATIONS LIST

MANUALS AND RULE TEXTS

MSRB Manual
Soft-cover edition containing the text of MSRB rules, interpretive notices and letters, samples of forms, texts of the securities Exchange Act of 1934 and of the Securities Investor Protection Act of 1970, as amended, and other applicable rules and regulations affecting the industry. Reprinted semi-annually. • **April 1, 1995 $5.00**

Glossary of Municipal Securities Terms
Glossary of terms (adapted from the State of Florida's *Glossary of Municipal Bond Terms*) defined according to use in the municipal securities industry. • **1985 $1.50**

Instructions for Filing Forms G-36
This publication is available to assist underwriters in submitting official statements, advance refunding documents and complete and correct forms G-36. • **1994 no charge**

Professional Qualification Handbook
A guide to requirements for qualification as a municipal securities representative, principal, sales principal and financial and operations principal, with questions and answers on each category. Includes sections on examination procedures, waivers, disqualification and lapse of qualification, the text of MSRB qualification rules and a glossary of terms. • **1990**
5 copies per order no charge
Each additional copy $1.50

Manual on Close-Out Procedures
A discussion of the close-out procedures of rule G-12(h)(i) in a question and answer format. Includes the text of rule G-12(h)(i) with each sentence indexed to particular questions, and a glossary of terms. • **January 1, 1985 $3.00**

Arbitration Information and Rules
Based on SICA's Arbitration Procedures and edited to conform to the Board's arbitration rules, this pamphlet includes the text of rules G-35 and A-16, a glossary of terms and list of other sponsoring organizations. • **1991 no charge**

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Step-by-step instructions and forms necessary for filing an arbitration claim. • **1991 no charge**

The MSRB Arbitrator's Manual
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MSRB Reports
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Outline for test series 53. • **January 1993 no charge**

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MSRB Information for Municipal Securities Investors
Investor brochure describing Board rulemaking authority, the rules protecting the investor, arbitration and communication with the industry and investors. Use of this brochure satisfies the requirements of rule G-10. •
1 to 500 copies no charges
Over 500 copies $.01 per copy

PUBLICATIONS ORDER FORM

DESCRIPTION	PRICE	QUANTITY	AMOUNT DUE
MSRB Manual (soft-cover edition)	$5.00		
Glossary of Municipal Securities Terms	$1.50		
Professional Qualification Handbook	5 copies per order no charge Each additional copy $1.50		
Manual on Close-Out Procedures	$3.00		
Instructions for Filing Forms G-36	no charge		
Arbitration Information and Rules	no charge		
Instructions for Beginning an Arbitration	no charge		
The MSRB Arbitrator's Manual	$1.00		
Study Outline: Municipal Securities Representative Qualification Examination	no charge		
Study Outline: Municipal Securities Principal Qualification Examination	no charge		
MSRB Information for Municipal Securities Investors (Investor Brochure)	1 to 500 copies no charge Over 500 copies $.01 per copy		
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