MSRB REPORTS

Volume 1, Number 4 | Municipal Securities Rulemaking Board | November 1981

Rousseau Elected Chairman for 1981-82

Jean J. Rousseau, Managing Director of Merrill Lynch White Weld Capital Markets Group has been elected by the Board to serve as Chairman for the fiscal year commencing October 1, 1981. Lawrence H. Brown, Senior Vice President, The Northern Trust Company, Chicago, has been elected to serve as Vice Chairman. The 1981-82 Board is listed on page 3.

From the Chairman

Important Issues for the Board

(see statement on page 2)

In This Issue

November-December

November 20 — Atlanta seminar on close-out amendments

December 2 — San Francisco seminar on close-out amendments

December 4 — Houston seminar on close-out amendments

Pending

— Start-up for the General Securities Sales Supervisor Examination (Test Series 8)

— SEC approval of amendments:

Rule G-12 (facilitating clearing through registered clearing agencies)

Rule G-12 (to shorten verification procedure deadline)

Rule G-12 (concerning resolution of money differences)

Rules G-12 and G-15 (concerning transactions in discounted securities)

— SEC approval of proposed rule G-33 on calculations

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MSRB REPORTS
Volume 1, Number 4 November 1981

From the Chairman

Important Issues for the Board

As we begin the Board's 1981-82 term, I thought it would be helpful if I summarized some of the important issues we can expect to face in the next year. In setting these out and briefly describing them, I hope to stimulate your thinking and encourage your comments rather than suggest conclusions:

- **Specific Description and Delivery Standards for Municipal Securities**

The Board delved into this issue in 1980 as an outgrowth of the various G-12 and G-15 amendments. Clearly, more needs to be done to ensure simplification and coordination of operations between firms and with investors and to make possible future mechanical improvements in securities processing.

- **Immobilization of Securities—Use of Depositories and Bond Registration**

It is frequently remarked that municipal bonds are anachronistic in form, and impossible to deal with efficiently in an electronic securities processing era. Issuer and industry practices are just as often defended as matters of right and legitimate investor protections. The discussions of "specific description" referred to above will bear on these issues as the Board considers the adaptation of municipal securities practices to new technology.

- **Technical Innovations and New Instruments on Municipal Debt**

Each new or substantially modified municipal debt instrument raises questions of operations procedure and fair practice which the Board must deal with expeditiously. Recent experience and the current condition of the market suggest that this will continue to be a lively area.

- **Board Communications and Relations with Its Constituents—Investors, Issuers, the Dealer Community**

The dealer meeting/education program will continue at a substantial pace. Relations with such issuer representative groups as the MFOA Debt Advisory Committee and the proposed Government Accounting Standards Board (GASB) will be broadened to address new issues of mutual interest. The goals and means of an investor relations program will be carefully reviewed.

- **Ongoing Activities**

The administration of the arbitration code, the nominations and election process, administration of the professional qualification examination programs, and Board relations with authorities responsible for examinations and enforcement of Board rules will be reviewed with an eye to greater efficiency.

- **Glass-Steagall Review—Regulation**

In view of the possibility that Congress may conduct a broad review of the banking and securities industries, the Board may become involved. On one hand, as representative of several different interests we will want to avoid partisan positions. On the other hand, as the exemplar of a successful exercise in the self-regulation of an industry incorporating different financial institutions, the Board may be able to make significant contributions to the debate. We will want to carefully consider our role as and if the issue develops.

As in the past, other important issues which we cannot predict will arise for Board consideration.

Board members have often remarked that the Board functions best when guided by extensive and wide-ranging comments from individuals, firms and associations representing all our constituencies. We are publishing this summary of our prospective activities in order to encourage such comment. Please call or write me, any other member of the Board or the MSRB staff with your thoughts on these and the other issues the Board might deal with.

Jean J. Rosseau
Managing Director
Merrill Lynch White Weld
Capital Markets Group
MSRB Chairman
1981-1982

Educational Meetings on Close-Out Amendments

The Municipal Securities Rulemaking Board is holding three meetings at which the new close-out procedures which became effective on September 14, 1981 will be reviewed in detail. The meetings will be held as follows:

ATLANTA: from 1:30 p.m. to 4:00 p.m., Friday, November 20 at Trust Company Bank Park Place and Edgewood Room 10

SAN FRANCISCO: from 9:30 a.m. to 12:00 noon Wednesday, December 2 at Bank of America 555 California Street Concourse Level Auditorium

HOUSTON: from 1:30 p.m. to 4:00 p.m., Friday, December 4 at First City National Bank of Houston 1111 Fannin Street First City East Building Lower Level Conference Room

* * *

The Board asks that firms or banks wishing to send persons to any of these meetings contact Sarah D. Stanton at the Board's office (telephone (202) 223-9352) and advise her of the name of the organization, the number of persons attending, and the meeting to be attended.

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MICHAEL D. VICK, *President*
M. B. Vick and Company ..... Chicago
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MSRB REPORTS

Volume 1, Number 4

November 1981

Questions & Answers

Route To:

- ☐ Manager, Muni. Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☒ Operations
- ☐ Compliance
- ☐ Training
- ☐ Other_____

Missing Coupons and Coupon Checks

Q: Under what circumstances may a "coupon check" be attached in lieu of coupons on an inter-dealer delivery of municipal securities?

A: A coupon check may be provided in lieu of the next payable coupon when delivery is made on or after the 30th calendar day preceding the coupon payment date. For example, if certain municipal securities pay coupons on December 1, a delivery of these securities made on November 5 may have a check attached in lieu of those December 1 coupons.

Q: Can this check be postdated to the coupon payment date?

A: No. The check must be a currently-dated check, payable on the date the delivery is made. In our example, the check would have to be payable on November 5.

Q: If the delivering dealer presents a coupon check in lieu of the next-payable coupons, must all of the next-payable coupons be detached, with the check covering the value of all the coupons? Or, can the delivering dealer present a coupon check for some of the next-payable coupons, with the balance of the coupons attached?

A: The delivering dealer can present a coupon check covering the value of coupons which have been detached from some of the securities, with the balance of the securities having the next-payable coupon attached. For example, if a delivering dealer presents on November 5 $100,000 par value securities which pay interest on December 1, with a coupon check attached for the December 1 coupons on $45,000 of the securities and the December 1 coupons attached on the remaining $55,000, the receiving dealer should accept this delivery.

Q: Can securities delivered after a coupon payment date be presented with the past-due coupons attached if the transaction was for a settlement date before the coupon date? For example, if a transaction in securities paying a coupon on December 1 is made for settlement on November 25, but delivery does not occur until December 2, must all of the December 1 coupons be detached and a check provided in lieu of the coupons?

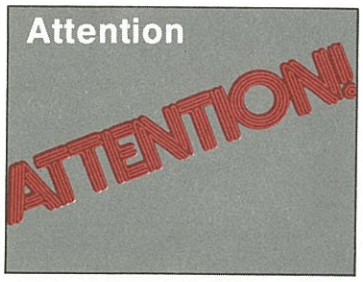
A: If the transaction settled prior to the coupon payment date, but delivery is not made until after the coupon payment date, the securities may be presented with the past-due coupons attached (or a check may be provided in lieu of these coupons).

Q: What about future-payable coupons? Can a currently-dated coupon check be attached in lieu of a coupon that is payable on a date that is more than 30 days in the future? For example, if the December 1, 1988 coupon is detached, can a check be provided in its place?

A: No. The Board's rule permits coupon checks to be used (in the absence of an agreement between the parties to the transaction) only in connection with coupons that are payable not later than 30 days after the date of delivery. If a coupon is detached that is payable more than 30 days after the date of delivery, then the securities must be sold with this fact stipulated at the time of trade. A coupon check would be acceptable on a delivery of such securities only if both parties agree at the time of trade that the securities will be delivered in this fashion.

MSRB REPORTS

Volume 1, Number 4 November 1981



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Response to PSA Request that MSRB Consider Adoption of Concession Rules

May 12, 1981

Mr. Albert F. Blaylock
Chairman
Municipal Securities Rulemaking Board
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036

Dear Al:

At its recent meeting, the PSA Board voted to request the MSRB to give consideration to the subject of the granting of concessions in new issues of municipal securities. Traditionally, concessions had been made available only to other professional dealers and dealer banks. In recent years there has been a growing tendency on the part of some underwriters to give concessions to certain institutional or other clients. Because there has been no consistent practice or rule in this area, many dealers and dealer banks believe that the present situation has led to less orderly marketing of new issue municipal securities, inequities in price to various classes of investors, and increased costs to issuers.

Therefore, we ask that the MSRB address this matter, determining the extent of its jurisdiction in this area and the appropriateness of amending its syndicate rule (G-11) to address specifically the question of to whom and under what circumstances concessions from public offering prices might be made available.

The Syndicate and Trading Committee of PSA's Municipal Securities Division has been requested by our Board to consider possible approaches in this matter, and to report its recommendations for further consideration.

With the apparent clarification of the Papilsky matter, PSA believes this is an appropriate time to open discussion of this important question.

Sincerely,

Peter C. Trent
Chairman
Public Securities Association

September 25, 1981

Peter C. Trent
Chairman
Public Securities Association
One World Trade Center
New York, New York 10048

Dear Peter:

This is in response to your may 12, 1981, letter asking the Board to consider the extent of its jurisdiction to adopt rules governing the granting of concessions in new issues of municipal securities and the appropriateness of amending rule G-11, regarding syndicate practices, to set forth to whom and under what circumstances concessions from public offering prices might be made available.

The Municipal Securities Rulemaking Board has the authority under Section 15B of the Securities Exchange Act to adopt rules regarding the granting of concessions to customers by syndicate members in fixed-price offerings of new issue securities. Notwithstanding that fact, the Board does not believe that such an amendment of rule G-11 is necessary or appropriate at this time. In adopting rule G-11, the Board chose to require the disclosure of syndicate practices adopted by the syndicate rather than dictate what those practices must be. The rule permits municipal syndicates maximum flexibility in selecting procedures most appropriate to their own requirements. The Board believes that adoption of provisions regarding the granting of concessions is within a syndicate's rulemaking province and is not convinced that efforts in this respect have been exhausted.

Thus, the Board has concluded that syndicate flexibility should not be circumscribed at this time by the adoption of concession rules. In addition to the above, the Board based its determination upon the manner in which new issue municipal securities are distributed by syndicates; whether additional regulatory restraints on syndicate practices are necessary for the maintenance of the current distribution system, and, whether such additional regulation would have anticompetitive effects not necessary or appropriate.

While the Board is not adopting concession rules at this time, it will monitor closely developments in the new issue industry and will consider carefully any information brought to its attention regarding the need for such rules.

Sincerely,

Albert F. Blaylock
Chairman

MSRB REPORTS

Volume 1, Number 4

November 1981

Route To:

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- ☒ Underwriting
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Rules G-12 and G-17

Letters of Interpretation

Settlement of Syndicate Accounts

This is in response to your letter of July 28, 1981, suggesting that requirements analogous to those placed on syndicate managers in rule G-12(j) be imposed on syndicate members who must remit their share of syndicate losses to their syndicate managers. You state that syndicate members frequently do not remit their losses to the manager in a timely fashion and that such a requirement would establish an "equitable balance between the interests of syndicate members and syndicate managers."

Rule G-12(j) provides:

> Final settlement of a syndicate or similar account formed for the purchase of securities shall be made within 60 days following the date all securities have been delivered by the syndicate or account manager to the syndicate or account members.

The rule is not expressly limited to money payments by syndicate managers, but broadly requires that final settlement shall be made within 60 days following the date the manager delivers the securities to the syndicate members. Thus, the rule requires syndicate members to remit their share of syndicate losses to the syndicate manager within the 60-day period set forth in the rule. Since a syndicate member cannot remit his share of losses until he is apprised by the syndicate manager of the amount of his share, a member should remit his share of the losses to the manager within a reasonable period of time after receiving the syndicate accounting required by rule G-11(g).—*MSRB interpretation of September 28, 1981 by Angela Desmond, Deputy General Counsel.*

Delivery Standards Applicable to Customer Transactions

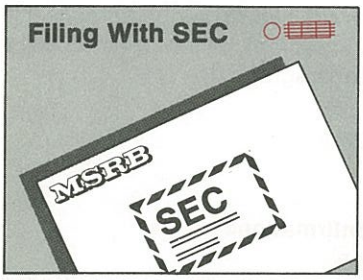
You have recently inquired concerning the standards applicable to municipal securities delivered on customer transactions. In particular, you noted that the delivery standards of rule G-12(e) apply, under the provisions of the rule, only between municipal securities brokers and dealers, and you inquired whether a delivery to a customer of securities which would not be considered to be in "good delivery" form under G-12(e) would contravene any Board rule.

Your inquiry was discussed by a committee of the Board which is charged with responsibility for interpreting Board rules pertaining to delivery standards. The Committee is of the view that, although the standards established under rule G-12(e) do not, as a matter of rule, apply to deliveries to customers, dealers should, as a matter of practice, adhere to such standards in making deliveries to customers. Further, the Committee has determined that a dealer knowingly delivering to a customer securities which did not meet the "good delivery" standards of rule G-12(e), including those provisions relating to documents required to accompany delivery, would be acting in violation of Board rule G-17's prohibition against unfair dealing.—*MSRB interpretation of September 25, 1981 by Donald F. Donahue, Deputy Executive Director.*

MSRB REPORTS

Volume 1, Number 4

November 1981



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- ☐ Manager, Muni. Dept.
- ☐ Underwriting
- ☒ Trading
- ☐ Sales
- ☒ Operations
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Rule G-12 and G-15

Proposed Amendments Filed Concerning Transactions in Discounted Securities

On October 23, 1981 the Board filed with the Securities and Exchange Commission certain amendments to rules G-12 on uniform practice and G-15 on customer confirmations. The text of the proposed amendments follows this notice.

Rule G-15 sets forth certain requirements concerning the information to be set forth on customer confirmations of transactions in municipal securities; rule G-12(c) sets forth comparable requirements concerning inter-dealer confirmations. Among other items, both rules require that confirmations contain information concerning the yield of the transaction* and detail of the principal and interest dollar amounts.

While the vast majority of municipal securities are traded on the basis of a yield or dollar price, the Board is aware that certain municipal notes are traded on a discounted basis. For example, this method of pricing is frequently used in connection with transactions in certain short-term notes which have been characterized as municipal "commercial paper." The proposed amendments establish appropriate confirmation requirements for municipal securities traded on this price basis.

The proposed amendments establish the following requirements:

1. The proposed amendments eliminate the requirement that confirmations of such transactions show yield and accrued interest, and substitute a requirement that such confirmations show the rate of discount and resulting dollar price. The Board is of the view that the rate of discount, rather than the yield, is the appropriate disclosure for such confirmations. The Board notes that this is the price basis on which the transactions are effected, and also that the rate of discount provides a common means of evaluating these investment instruments against the other alternatives with which they are likely to be compared (*e.g.*, corporate commercial paper).

Since the return on a discounted security is received in the form of an accretion of the discount to par, there is no "accrued interest" on such securities. Accordingly, the Board proposes to exempt confirmations of transactions in such securities from the requirement to disclose accrued interest.

2. The proposed amendments permit an alternative method of showing the total transaction dollar amount computation. Normal confirmation practice on municipal securities transactions shows this computation as an addition to the extended principal (the par value multipled by the dollar price) and the accrued interest to derive the total dollar amount of the transaction. Since there is no accrued interest on a discounted security, the comparable confirmation disclosure would simply show the extended principal (the par value multiplied by the dollar price derived from the rate of discount), which is equal to the total dollar amount of the transaction.

The Board is aware that a somewhat different format for presenting the total dollar amount computation is used for certain discounted municipal securities, as well as for other discounted instruments. This format presents the computation as a subtraction of the total dollar amount of the discount from the par value of the securities to derive the total dollar amount of the transaction. The Board believes that this method of confirmation presentation is also satisfactory and that requiring use of a different confirmation format would impose expensive and unnecessary confirmation and reprogramming changes on dealers currently using this method. Accordingly, the proposed amendments permit use of this format.

3. The proposed amendments apply only to certain transactions in discounted securities. Some transactions in discounted securities are effected on a yield-equivalent basis, that is, the rate of discount is converted to its yield equivalent and the transaction is confirmed at this price.** For this type of transaction the existing confirmation rules are appropriate and are in accord with existing confirmation practice. Accordingly, the proposed amendments would not apply to this type of transaction, but would apply solely to transactions effected on the basis of a rate of discount.

* * * * *

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

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

*Rule G-12 requires disclosure of the yield only if the yield is the price basis of the transaction.

**This method is more commonly used with discounted securities that are more closely comparable to the traditional municipal note.

Text of Proposed Amendment*

Rule G-12. Uniform Practice

(a) and (b) No change.

(c) Dealer Confirmations.

(i) through (iv) No change.

(v) Each confirmation shall contain the following information:

(A) through (N) No change.

The confirmation for a transaction in securities traded on a discounted basis (other than discounted securities traded on a yield-equivalent basis) shall not be required to show the pricing information specified in subparagraph (I) nor the accrued interest specified in subparagraph (K). Such confirmation shall, however, contain the rate of discount and resulting dollar price. Such confirmation may, in lieu of the resulting dollar price and the extended principal amount specified in subparagraph (L), show the total dollar amount of the discount. The initial confirmation for a "when, as and if issued" transaction shall not be required to contain the information specified in subparagraphs (H), (K), (L), and (M) ~~of this paragraph~~ or the resulting dollar price as specified in subparagraph (I).

(vi) No change.

(d) through (I) No change.

Rule G-15. Customer Confirmations

(a) through (c) No change.

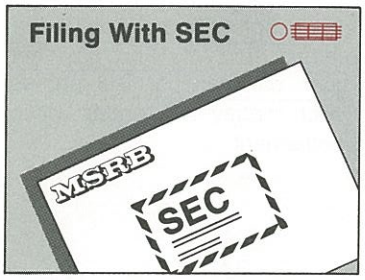
(d) The confirmation for a transaction in securities traded on a discounted basis (other than discounted securities traded on a yield-equivalent basis) shall not be required to show the yield and dollar price information specified in subparagraph (viii) of paragraph (a) nor the accrued interest specified in subparagraph (ix) of paragraph (a). Such confirmation shall, however, contain the rate of discount and resulting dollar price. Such confirmation may, in lieu of the resulting dollar price and the extended principal amount specified in subparagraph (x) of paragraph (a), show the total dollar amount of the discount.

(d) through (h) renumbered as (e) through (i) No substantive changes.

*Underlining indicates new language; material which is lined through would be deleted.

MSRB REPORTS

Volume 1, Number 4 November 1981



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- ☐ Manager, Muni. Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☒ Operations
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- ☐ Training
- ☐ Other_____

Rule G-12

Proposed Amendments Filed Concerning Resolution of Money Differences

On October 23, 1981, the Board filed with the Securities and Exchange Commission a proposed amendment to rule G-12 concerning the resolution of money differences on transactions. The proposed amendment reflects the recent filing of the Board's proposed rule G-33 on calculations, and provides for the appropriate resolution of money differences resulting from the use of different calculation methods.

Rule G-12 sets forth uniform practices to be followed by all municipal securities brokers and municipal securities dealers including standards governing the delivery of securities on municipal securities transactions. Among other matters, the rule establishes a schedule of money differences, and specifies that a delivery on which there is a difference between the contract moneys shown by the selling dealer and the contract moneys known by the purchasing dealer shall be accepted if the difference is less than or equal to the applicable amount established in the schedule. The parties to the transaction are required to resolve the money difference and to take steps to ensure that the correct moneys have been paid within ten business days of the delivery date.

On September 4, 1981 the Board filed with the Commission proposed rule G-33, which prescribed standard formulas for the computation of accrued interest, dollar price, and yield, as well as setting other standards for related calculations areas. Among other matters, the proposed rule would permit the use of the "interpolation" method of deriving a dollar price from a yield until January 1, 1984. After that time municipal securities brokers and dealers would be required to use the "direct pricing" method; that is, they would have to compute the dollar price directly to the settlement date of the transaction. In the filing the Board noted, however, that many municipal securities brokers and dealers already compute the dollar price directly to the settlement date of the transaction.

The Board believes that many of the minor money differences and discrepancies on transactions are the result of differences in the computational methods used by the two parties to the transaction. In particular, a significant number of these may result from the use by one party of the "interpolation" method of computing a dollar price, and the use by the other party of the "direct pricing" method. While the Board believes that both methods should continue to be permissible at the present time for confirmation processing purposes (so as to permit sufficient time for the necessary computer and calculator reprogramming), the Board is also of the view that the "direct pricing" method is the more correct method, and that the dealer using the "direct pricing" method should be deemed to have the correct calculations. Accordingly, the proposed rule change provides that, if the money difference on a transaction is due to the use by the two parties of different computational methods, with one party using the "direct pricing" method, and the other party using a different method (including the "interpolation" method permitted until January 1, 1984 under subparagraph (b) (i) (D) of proposed rule G-33), the calculations of the party using the "direct pricing" method shall be deemed accurate for purposes of the reconciliation of the money difference.

The text of the proposed amendment is set forth below. The proposed amendment will not become effective until approved by the Commission; the Board has requested that the Commission consider this matter concurrently with its consideration of proposed rule G-33.

Questions or comments concerning the proposed amendment may be directed to Donald F. Donahue, Deputy Executive Director.

* * * * *

Text of Proposed Amendment*

Rule G-12. Uniform Practice

(a) through (d) No change.

(e) Delivery of Securities. The following provisions shall, unless otherwise agreed by the parties, govern the delivery of securities:

(i) through (xiv) No change.

(xv) Money Differences. The following money differences shall not be sufficient to cause rejection of delivery:

Par Value	Maximum Differences Per Transaction
$ 1,000 to 24,999	$ 10
25,000 to 99,999	25
100,000 to 249,999	60
250,000 to 999,999	250
1,000,000 and over	500

*Underlining indicates additions.

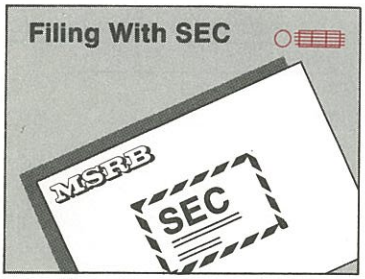
The calculations of the seller shall be utilized determining the maximum permissible differences and amount of payment to be made upon delivery. However, if the money difference is due to the computation by one party of the formula required under rule G-33 directly to the settlement date of the transaction, and the use by the other party of another computation method (including the dollar price interpolation method permitted under subparagraph (b) (i) (D) of rule G-33), the calculations of the party computing directly to the settlement date shall be deemed accurate and payment made in accordance with such calculations. The parties shall seek to reconcile any such money differences within ten business days following settlement.

(f) through (l) No change.

(b) Not applicable.

(c) Not applicable.

MSRB REPORTS
Volume 1, Number 4 November 1981



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- ☐ Manager, Muni. Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☒ Operations
- ☐ Compliance
- ☐ Training
- ☐ Other_____

Rule G-12

Proposed Amendments Filed Concerning Comparison of Transactions Through Registered Clearing Agencies

On October 23, 1981, the Board filed with the Securities and Exchange Commission a proposed change to previously-filed amendments to rule G-12 concerning the comparison, clearance, and settlement of transactions in municipal securities through the facilities of a registered clearing agency. The new amendment would exempt from the provisions of the Board's comparison and verification rules dealers who make use, within a specified time period, of a special comparison procedure offered by a registered clearing agency.

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, rule G-12 excludes from its application transactions which are "compared, cleared and settled through the facilities of a clearing agency registered with the Commission." On June 1, 1981 the Board filed certain proposed rule changes, which would modify this exemptive provision, and incorporate into the rule other provisions concerning transactions submitted to registered clearing agencies for comparison and clearance. Among other matters, the proposed rule changes would establish a verification procedure for transactions which are submitted to a registered clearing agency for comparison but fail to compare.

The National Securities Clearing Corporation ("NSCC"), a registered clearing agency which offers automated comparison and clearance services for municipal securities transactions, has advised the Board that it intends to offer participants a special procedure for comparision of certain municipal securities transactions. Under this procedure, a dealer who had previously submitted a transaction for comparison which had failed to compare could resubmit such transaction, not earlier than the fourth business day following the trade date, on a basis which would provide that, if the named contra-party did not respond on the transaction within a specified time period, the transaction would be deemed compared as submitted by the confirming dealer. If the named contra-party does not know the transaction, it would have to submit instructions to NSCC advising that it "DK's" the trade.

As is the case with the verification procedure prescribed under paragraph (d) (iii) of the Board's rule, this post-original comparision procedure requires the non-confirming party to respond in some fashion to the advice of the transaction. Since the procedure contemplated by NSCC accomplishes the desired end of fostering timely comparison of transactions, and makes use of the efficiencies offered by a clearing agency, the Board believes that is is a satisfactory alternative to the procedure required under paragraph (d) (iii). Accordingly, the proposed amendment would specify that, if a dealer submits a trade for comparison through the clearing agency but such trade does not compare, the submitting dealer need not follow the procedure required under paragraph (d) (iii) if the dealer initiates this special post-original-comparison procedure through the clearing agency within the required time period.

The text of the relevant portion of the proposed amendments, as modified by this change, is set forth below. The proposed amendments will not become effective until approved by the Commission.

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

* * * * *

Text of Proposed Amendments*

Rule G-12. Uniform Practice

(a) 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

*The text reflects the proposed rule changes to rule G-12 as currently on file with the Commission. Underlining indicates new language.

(iii) of this section; provided, however, that if the submitting party initiates within such time period, in accordance with the rules of a registered clearing agency, a post-original-comparison procedure on the uncompared transaction, which requires affirmative action of the contra-party, the submitting party shall not be required to follow the procedures required by paragraph (iii) of this section.

(viii) and (ix) No change.

(e) through (l) No change.

MSRB REPORTS

Volume 1, Number 4 November 1981

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Route To:

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- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☐ Operations
- ☒ Compliance
- ☐ Training
- ☐ Other_____

Rule G-6

Amendment on Fidelity Bonding Approved

On October 15, 1981 the Securities and Exchange Commission approved an amendment to Board rule G-6 on fidelity bonding. Prior to this amendment, the rule specified that municipal securities brokers and dealers (other than bank dealers) must maintain bonding coverage in accordance with the requirements of Article III, Section 32 of the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (the "NASD"), if they are members of the NASD, or in accordance with Commission rule 15b10-11, if they are SECO broker/dealers, in both cases as such requirements were set forth on January 10, 1977. The amendment deletes the reference in the rule to a specific date, thereby requiring municipal securities brokers and dealers to comply with either the NASD or the SECO requirements, whichever is appropriate, as they are currently in effect, and as they are from time to time amended.

The amendment is effective upon approval by the Commission. The text of the amendment follows.

Text of Amendment*

Rule G-6. Fidelity Bonding

No municipal securities broker or municipal securities dealer (other than a bank dealer) shall be qualified for purposes of rule G-2 unless such broker or dealer, if a member of a registered securities association, has met the fidelity bonding requirements set forth in the rules of such association, to the same extent as if such rules were applicable to such broker or dealer, or such broker or dealer, if not a member of a registered securities association, has met the fidelity bonding requirements set forth in rule 15b10-11 under the Act, to the same extent as if such rules were applicable to such broker or dealer, ~~in each case as such requirements were set forth on January 10, 1977~~.

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

*Material which is lined through has been deleted.

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RULE G-12

Amendment on Reclamation of Registered Securities Approved

On October 16, 1981, the Securities and Exchange Commission approved an amendment to Board rule G-12 on uniform practice. 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 times periods. The amendment modifies 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. The amendment establishes 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 amendment establishes 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 amendment was effective upon approval by the Commission.

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

Text of 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.

*Underlining indicates new language.