MSRB REPORTS

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POSTMASTER send address changes to Municipal Securities Rulemaking Board, 1818 N Street, NW, Suite 800, Washington, DC 20036-2491. Telephone (202) 223-9347

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Escrowed-to-Maturity Securities: Rules G-17, G-12 and G-15

Interpretations

The Board requires dealers assisting issuers to recommend that issuers clearly state whether the issuer reserves the option to redeem such securities prior to their maturity and clarifies its confirmation requirements.

The Board is concerned that the market for escrowed-to-maturity securities has been disrupted by uncertainty whether these securities may be called pursuant to optional redemption provisions. Accordingly, the Board has issued the following interpretations of rule G-17, on fair dealing, and rules G-12(c) and G-15(a), on confirmation disclosure, concerning escrowed-to-maturity securities. The interpretations are effective immediately.

Background

Traditionally, the term escrowed-to-maturity has meant that such securities are not subject to optional redemption prior to maturity. Investors and market professionals have relied on this understanding in their purchases and sales of such securities. Recently, certain issuers have attempted to call escrowed-to-maturity securities. As a result, investors and market professionals considering transactions in escrowed-to-maturity securities must review the documents for the original issue, for any refunding issue, as well as the escrow agreement and state law, to determine whether any optional redemption provisions apply. In addition, the Board understands that there is uncertainty as to the fair market price of such securities which may cause harm to investors.

On March 17, 1987, the Board sent letters to the Public Securities Association, the Government Finance Officers Association and the National Association of Bond Lawyers expressing its concern. The Board stated that it is essential that issuers, when applicable, expressly note in official statements and defeasance notices relating to escrowed-to-maturity securities whether they have reserved the right to call such securities. It stated that the absence of such express disclosure would raise concerns whether the issuer's disclosure documents adequately explain the material features of the issue and would severely damage investor confidence in the municipal securities market. Although the Board has no rulemaking authority over issuers, it advised brokers, dealers and municipal securities dealers (dealers) that assist issuers in preparing disclosure documents for escrowed-to-maturity securities to alert these issuers of the need to disclose whether they have reserved the right to call the securities since such information is material to a customer's investment decision about the securities and to the efficient trading of such securities.

Application of Rule G-17 on Fair Dealing

In the intervening months since the Board's letter, the Board has continued to receive inquiries from market participants concerning the callability of escrowed-to-maturity securities. Apparently, some dealers now are describing all escrowed-to-maturity securities as callable and there is confusion how to price such securities. In order to avoid confusion with respect to issues that might be escrowed-to-maturity in the future, the Board is interpreting rule G-17, on fair dealing,[1] to require that municipal securities dealers that assist in the preparation of refunding documents as underwriters or financial advisors alert issuers of the materiality of information relating to the callability of escrowed-to-maturity securities. Accordingly, such dealers must recommend that issuers clearly state when the refunded securities will be redeemed and whether the issuer reserves the option to redeem the securities prior to their maturity.

Application of Rules G-12(c) and G-15(a) on Confirmation Disclosure of Escrowed-to-Maturity Securities

Rules G-12(c)(vi)(E) and G-15(a)(iii)(E) require dealers to disclose on inter-dealer and customer confirmations, respec-

Questions about this notice may be directed to Diane G. Klinke, Deputy General Counsel.

[1] Rule G-17 states that "[i]n the conduct of its municipal securities business, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice."

tively, whether the securities are "called" or "prerefunded," the date of maturity which has been fixed by the call notice, and the call price. The Board has stated that this paragraph would require, in the case of escrowed-to-maturity securities, a statement to that effect (which would also meet the requirement to state "the date of maturity which has been fixed") and the amount to be paid at redemption.[2] In addition, rules G-12(c)(v)(E) and G-15(a)(i)(E) require dealers to note on confirmations if securities are subject to redemption prior to maturity (callable).

The Board understands that dealers traditionally have used the term escrowed-to-maturity only for non-callable advance refunded issues the proceeds of which are escrowed to the original maturity date or for escrowed-to-maturity issues with mandatory sinking fund calls. To avoid confusion in the use of the term escrowed-to-maturity, the Board has determined that dealers should use the term escrowed-to-maturity to describe on confirmations only those issues with no optional redemption provisions expressly reserved in escrow and refunding documents. Escrowed-to-maturity issues with no optional or mandatory call features must be described as "escrowed-to-maturity." Escrowed-to-maturity issues subject to mandatory sinking fund calls must be described as "escrowed-to-maturity" and "callable." If an issue is advance refunded to the original maturity date, but the issuer expressly reserves optional redemption features, the security should be described on confirmations as "escrowed (or prerefunded) to [the actual maturity date]" and "callable."[3]

The Board believes that the use of different terminology to describe advance refunded issues expressly subject to optional calls will better alert dealers and customers to this important aspect of certain escrowed issues.[4]

September 21, 1987

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[2] *See* MSRB interpretation of January 7, 1982 by Donald F. Donahue, Deputy Executive Director, *MSRB Manual* (CCH) para. 3571.15 at 4752.

[3] This terminology also would be used for any issue prerefunded to a call date, with an earlier optional call expressly reserved.

[4] The Board believes that, because of the small number of advance refunded issues that expressly reserve the right of the issuer to call the issue pursuant to an optional redemption provision, confirmation systems should be able to be programmed for use of the new terminology without delay.

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Delivery of Investor Brochure: Rule G-10

Amendment Approved

The new rule requires dealers to deliver the Board's investor brochure to a customer upon receipt of a written complaint from that customer.

On July 31, 1987, the Securities and Exchange Commission approved rule G-10 which requires a dealer to deliver the Board's investor brochure to a customer upon receipt of a written complaint.[1] The rule became effective upon approval by the Commission.

The rule requires a dealer to deliver the investor brochure to a customer upon receipt of a written complaint concerning a municipal securities transaction from such customer. Rule G-8(a)(xii) currently requires dealers to keep a record of all written customer complaints and what action has been taken in response. Pursuant to rule G-10, dealers are required to annotate the written complaint file to reflect the mailing of the brochure. In this way, the enforcement agencies will be able to inspect for compliance with rule G-10 by their periodic review of the complaint file.

While the Board is not adopting a requirement for delivery of the brochure to new and current customers at this time, it encourages dealers voluntarily to provide the brochure to its customers. The Board believes that all municipal securities customers would benefit from receipt of the information contained in the brochure.

Copies of the brochure may be obtained from the Board's offices by submitting a completed Publications Order Form. A blank order form is on page 19 of this issue.

July 31, 1987

Text of New Rule

Rule G-10. Delivery of Investor Brochure

(a) Each broker, dealer and municipal securities dealer shall deliver a copy of the investor brochure to a customer promptly upon receipt of a complaint by the customer.

(b) For purposes of this rule, the following terms have the following meanings:

(i) the term "investor brochure" shall mean the publication or publications so designated by the Board, and

(ii) the term "complaint" is defined in rule G-8(a)(xii).

Questions about the amendment may be directed to Diane G. Klinke, Deputy General Counsel.

[1] SEC Release No. 34-24764.

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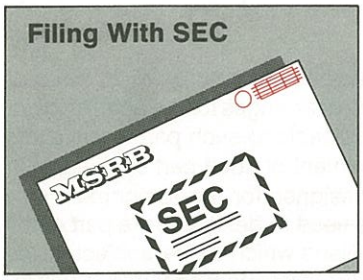

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CUSIP Numbers for Secondary Market Securities: Rule G-34

Amendments Filed

The proposed amendments would require dealers to apply for new CUSIP numbers for secondary market securities that have one CUSIP number but are no longer a single, fully fungible group of securities.

On August 26, 1987, the Board filed with the Securities and Exchange Commission a proposed amendment to rule G-34 on CUSIP numbers and the dissemination of initial trade date information. The amendment would require dealers to apply for new CUSIP numbers for secondary market municipal securities that are assigned a CUSIP number which no longer designates a single, fully fungible group of securities. The amendment will not become effective until approved by the Commission. Persons wishing to comment on the amendment should comment directly to the Commission.[1]

Background

Rule G-34 requires dealers to apply to the Board or its designee for new CUSIP numbers in certain specified circumstances.[2] Section (a) of the rule requires any dealer that acquires a new issue of municipal securities, as a principal or agent, to apply for the assignment of CUSIP numbers to the new issue.[3] If the new issue will be used to refund an outstanding issue of municipal securities in such a manner that securities previously assigned one CUSIP number are refunded to more than one date or price, the dealer also must apply for new CUSIP numbers for the outstanding issue. Section (b) of rule G-34 requires any dealer that acquires or arranges for a transferable instrument altering the security or source of payment for part of a maturity of an outstanding issue to apply for new CUSIP numbers for the securities that are subject to the transferable instrument when traded with the instrument attached.[4]

Dealers and the automated clearance and settlement systems depend upon CUSIP numbers to identify municipal securities and the usefulness of the CUSIP numbering system to identify securities is diminished if the same CUSIP number is assigned to two or more types of securities having different features. Several circumstances not specifically addressed by rule G-34, however, such as secondary market insurance obtained by customers or remarketed securities, may cause secondary market securities previously having identical features no longer to be fungible.

Summary of Amendments

The proposed amendment would require a dealer to apply for new CUSIP numbers in connection with the sale or offering of any secondary market municipal securities that are assigned a CUSIP number that no longer designates securities that are identical with respect to certain specified features. These features, which also are used to determine CUSIP number assignment for new issues, are listed in rule G-34(a)(i)(A). They are:

(1) complete name of issue and series designation, if any;
(2) interest(s) rates and maturity date(s);
(3) dated date;
(4) type of issue (*e.g.*, general obligation, limited tax or revenue);
(5) type of revenue, if the issue is a revenue issue;
(6) details of all redemption provisions;
(7) name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to the debt

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

[1] SEC File No. SR-MSRB-87-10. Comments filed with the Commission should refer to the file number.
[2] The Board has designated CUSIP Service Bureau to receive these applications.
[3] The CUSIP numbers must be obtained on or prior to the date of sale of the issue. The rule also requires any dealer serving as a financial advisor to the issuer of a competitive issue to be responsible for ensuring that CUSIP numbers are assigned to the issue.
[4] Such instruments include insurance with respect to debt service on the issue, put or tender options, letters of credit or guarantee or any similar devices.

service on all or part of the issue; and

(8) any distinction(s) in the security or source of payment of the debt service on the issue.

The amendment would require a dealer applying for new CUSIP numbers for secondary market securities to provide the CUSIP number previously assigned to the securities and other information necessary to ensure appropriate CUSIP number assignment to the securities. The amendment would apply only if the secondary market securities are eligible for new CUSIP number assignment. The CUSIP Service Bureau is expanding the types of municipal securities eligible for CUSIP number assignment and the Board urges dealers to contact the Service Bureau to determine the CUSIP eligibility of secondary market securities.

Summary of Comments

In March 1987, the Board solicited comments on the proposed amendment and received four comment letters and one oral comment.[5] The commentators generally supported the amendment as drafted.[6] One commentator suggested that the entity responsible for causing a modification of the features of secondary market municipal securities, rather than the dealer offering or selling the securities, should be responsible for obtaining new CUSIP numbers. The Board, however, does not have authority to adopt rules that would require entities other than dealers to obtain CUSIP numbers for municipal securities. The Board believes that the amendment generally would not place heavy burdens on dealers that are not participating in a program that modifies the features of an issue.[7]

August 26, 1987

Text of Proposed Amendments*

Rule G-34. CUSIP Numbers and Dissemination of Initial Trade Date Information

(a) No change.

(b) *Secondary Market Securities.*

(i) ~~Except as otherwise provided in this section (b), e~~Each ~~municipal securities~~ broker, dealer or municipal securities dealer ~~who~~ that, in connection with a sale or an offering for sale of part~~, but not all,~~ of ~~an outstanding~~ maturity of an issue of municipal securities, acquires or arranges for the acquisition of a transferable instrument applicable to such part which alters the security or source of payment of such part shall apply in writing to the Board or its designee for the assignment of a CUSIP number ~~which will be used~~ to designate the part of the ~~outstanding~~ maturity of the issue which is the subject of the instrument when traded with the instrument attached. Such instruments shall include (A) insurance with respect to the payment of debt service on such portion, (B) a put option or tender option, (C) a letter of credit or guarantee, or (D) any other similar device. This paragraph (i) shall not apply with respect to any part of an outstanding maturity of an issue of municipal securities with respect to which a CUSIP number that is applicable to such part when traded with an instrument which alters the security or source of payment of such part has already been assigned.

(ii) Each broker, dealer or municipal securities dealer, in connection with a sale or an offering for sale of part of a maturity of an issue of municipal securities which is assigned a CUSIP number that no longer designates securities identical with respect to all features of the issue listed in items (l) through (8) of subparagraph (a)(i)(A) of this rule, shall apply in writing to the Board or its designee for a new CUSIP number or numbers to designate the part or parts of the maturity which are identical with respect to items (1) through (8) of subparagraph (a)(i)(A).

~~(ii)~~ (iii) The ~~municipal securities~~ broker, dealer or municipal securities dealer shall make the application required under this section (b) as promptly as possible, and shall provide to the Board or its designee : ~~information sufficient to identify~~

(A) the previously assigned CUSIP number;

(B) all information on the features of the maturity of the issue listed in items (1) through (8) of subparagraph (a)(i)(A) of this rule and documentation of the features of such maturity sufficient to evidence the basis for CUSIP number assignment; and,

(C) if the application is based on an instrument affecting the source of payment or security for a part of a maturity of an issue, information on ~~and to describe~~ the nature of the instrument ~~acquired~~, including the name of any party obligated with respect to debt service under the terms of such instrument. ~~The municipal securities broker or municipal securities dealer also~~

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[5] The comment letters are available for inspection at the Board's offices.

[6] One commentator suggested that the amendment not apply to securities that will exist only for a short time in the secondary market and another commentator suggested that the amendment not apply to certain types of municipal securities having a nominal long-term maturity, but remarketed with very short mandatory tender periods that are set through negotiation with customers (*e.g.*, "Unit-Priced Demand Adjustable Tax-Exempt Securities," also known as "UPDATES"). The Board has determined that it is appropriate to rely on the CUSIP Service Bureau to set standards of eligibility for CUSIP numbers. The Service Bureau has stated that securities in which the mandatory tender periods are negotiated individually with customers are ineligible for new CUSIP number assignment in the secondary market.

[7] With respect to securities insured by non-dealers, one commentator, a bond insurance company, stated that it routinely obtains CUSIP numbers on behalf of customers who purchase insurance for a portion of a maturity at the time the insurance is obtained. Thus, if the customer later decides to sell the securities through a dealer, appropriate CUSIP numbers already will be assigned and the dealer purchasing the securities will not be required to obtain new CUSIP numbers.

* Underlining indicates new language; strike-through indicates deletions.

~~shall provide~~ and documentation sufficient to evidence the ~~basis for number assignment and~~ nature of the instrument ~~acquired~~.

~~(iii) The provisions of this section (b) shall not apply with respect to any part of an outstanding maturity of an issue of municipal securities with respect to which a CUSIP number that is applicable to such part when traded with an instrument which alters the security or source of payment of such part has already been issued.~~

(c) No change.

(d) *Eligibility*. The provisions of this rule shall not apply to an issue of municipal securities (or for the purpose of section (b) ~~the~~ any part of an outstanding maturity of an issue ~~when traded with an instrument which alters the security or source of payment of such part~~) which does not meet the eligibility criteria for CUSIP number assignment.

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Book-Entry Delivery of Same-Day Funds Securities: Rules G-12 and G-15

Amendments Approved

The amendments provide a temporary exemption from the automated clearance rules for transactions in securities that are eligible for book-entry settlement only in same-day funds.

On June 30, 1987, the Securities and Exchange Commission approved amendments to rules G-12(f)(ii) and G-15(d)(iii), on book-entry delivery of inter-dealer and customer transactions, respectively.[1] The amendments provide a temporary exemption from the rules, until June 30, 1988, for transactions in municipal securities that are eligible for book-entry settlement in same-day funds at registered securities depositories. The amendments became effective upon approval by the Commission.

Rule G-12(f)(ii) requires book-entry delivery of inter-dealer municipal securities transactions if both dealers (or their clearing agents for a transaction) are members of a depository making the securities eligible and the transaction is compared through a registered securities clearing agency. Rule G-15(d)(iii) prohibits dealers from granting delivery versus payment or receipt versus payment privileges on a customer transaction in which both the dealer and the customer (or their clearing agents) are members of a depository making the securities eligible unless book-entry delivery is used to settle the transaction.

On July 10, 1987, the Depository Trust Company (DTC) commenced a pilot program that provides book-entry delivery services for same-day funds securities. Prior to this pilot program, no depository offered book-entry delivery services for same-day funds municipal securities. The amendments will allow members of DTC to become familiar with program operations prior to being required to submit all eligible same-day funds transactions to the system.

June 30, 1987

Text of Amendments*

Rule G-12. Uniform Practice

(a) through (e) No change.

(f) Use of Automated Comparison, Clearance, and Settlement

(i) No change.

(ii) Notwithstanding the provisions of section (e) of this rule, if a transaction submitted to one or more registered clearing agencies for comparison in accordance with paragraph (i) above has been compared successfully, and if such transaction involves municipal securities which are eligible for deposit at one or more securities depositories registered with the Securities and Exchange Commission in which both parties to the transaction are members, the parties to such transaction shall settle the transaction by book-entry through the facilities of the depository or through the interface or link, if any, between the depositories. The provision of this paragraph (ii) shall not apply to transactions effected on or ~~after February 1, 1985~~ prior to June 30, 1988, in municipal securities which are eligible for settlement only in same-day funds in a securities depository registered with the Securities and Exchange Commission.

(iii) No change.

(g) through (l) No change.

Rule G-15. Confirmations, Clearance and Settlement of Transactions with Customers

(a) through (c) No change.

(d) Delivery/Receipt vs. Payment Transactions

(i) through (ii) No change.

(iii) No broker, dealer, or municipal securities dealer who is,

Questions about the amendments may be directed to Harold L. Johnson, Assistant General Counsel.

[1] SEC Release No. 34-24661.

* Underlining indicates new language; strike-through indicates deletions.

or whose clearing agent with respect to such transaction is, a participant in a clearing agency registered with the Securities and Exchange Commission shall effect a transaction in any municipal security which is eligible for book-entry settlement through the facilities of such clearing agency on a delivery vs. payment or receipt vs. payment basis for the account of a customer who is, or whose agent with respect to such transaction is, a participant in such clearing agency (or in a clearing agency interfaced or otherwise linked with such clearing agency) unless the facilities of such clearing agency (or the facilities of a clearing agency interfaced or otherwise linked with such clearing agency, as necessary) are used for the book-entry settlement of such transaction. The provisions of this paragraph (iii) shall not apply to transactions effected on or ~~after February 1, 1985~~ prior to June 30, 1988, in municipal securities which are eligible for settlement only in same-day funds in a securities depository registered with the Securities and Exchange Commission.

(e) No change.

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Arbitration Fees: Rule A-16

Amendments Approved

The amendments allocate the cost of arbitration more proportionally by requiring higher fees for cases with large amounts in dispute.

On July 31, 1987, the Securities and Exchange Commission approved amendments to rule A-16, concerning arbitration fees and deposits.[1] The amendments conform the provisions of the Board's arbitration fee schedule to recent amendments to the Uniform Arbitration Code developed by the Securities Industry Conference on Arbitration, which are designed to promote the filing of justifiable claims. The amendments became effective upon approval.

The amendments allocate the cost of providing arbitration more proportionally by requiring higher fees for cases with large amounts in dispute, while maintaining a fee schedule that makes arbitration affordable to the public. The amendments impose a higher fee on claims exceeding $500,000. Claims in this category often require multiple hearing sessions and are administratively more expensive to process. Even with this fee increase, the arbitration service is highly subsidized by the Board.

July 31, 1987

Text of Amendments*

Rule A-16. Arbitration Fees and Deposits

(1) Except as provided in section 34 of rule G-35, at the time of filing the Submission Agreement, the claimant shall deposit the amount indicated below unless such deposit is specifically waived by the Director of Arbitration.

Amount in Dispute (Exclusive of interest and expenses)	*Deposit*
$1,000 or less	$15
Above $1,000—but not exceeding $2,500	$25
Above $2,500—but not exceeding $5,000	$100
Above $5,000—but not exceeding $10,000	$200
Above $10,000—but not exceeding ~~$20,000~~ $50,000	~~$300~~ $400
Above ~~$20,000~~ $50,000—but not exceeding $100,000	$500
Above $100,000—but not exceeding $500,000	$750
Above $500,000	$1,000

~~Where~~ If the amount in dispute is $10,000 or less no additional deposits shall be required despite the number of hearing sessions. ~~Where~~ If the amount in dispute is above $10,000 and multiple sessions are required, the arbitrators may require any of the parties to make additional deposits for each additional session. In no event shall the aggregate amount deposited per session exceed the amount of the initial deposit at the rates above set forth.

(2) The arbitrators, in their award, may determine the amount chargeable to the parties as forum fees (fees) and shall determine by whom such fees shall be borne. ~~Where~~ If the amount in dispute is $10,000 or less, total fees to the parties shall not exceed the amount deposited. ~~Where~~ If the amount in dispute is above $10,000 but does not exceed ~~$20,000~~ $50,000, the maximum fee shall be ~~$300~~ $400 per session. ~~Where~~ If the

Questions about the amendments may be directed to Angela Desmond, General Counsel and Director of Arbitration.

[1] SEC Release No. 34-24763

* Underlining indicates new language; strike-through indicates deletions.

amount in dispute is above ~~$20,000~~ $50,000 but does not exceed $100,000, the maximum fee shall be $500 per session. ~~Where~~ If the amount in dispute is above $100,000 but does not exceed $500,000, the maximum fee shall be $750 per session. If the amount in dispute is above $500,000, the maximum fee shall be $1,000 per session. In no event shall the fees assessed by the arbitrators exceed ~~$750~~ $1,000 per session. Amounts deposited by a party shall be applied against fees, if any. If the fees are not assessed against a party who made a deposit, the deposit will be refunded.

(3) If the dispute, claim or controversy does not involve or disclose a money claim, the amount to be deposited by the claimant shall be $100 or such amount as the Director of Arbitration or the panel of arbitrators may require, but shall not exceed ~~$750~~ $1,000.

(4) through (6) No change.

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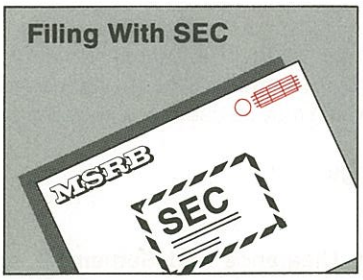

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Miscellaneous Technical Amendments: Rules G-8, G-12 and G-15, and G-19

Amendments Filed

The amendments to

- **rule G-8 would require dealers to maintain records of all deliveries of disclosure documents required under rule G-32,**
- **rules G-12 and G-15 would correct certain cross-references regarding confirmation disclosure requirements, and**
- **rule G-19 would prohibit a dealer from effecting a transaction for a discretionary account unless the dealer determines that it is suitable.**

On August 20, 1987, the Board filed with the Securities and Exchange Commission miscellaneous technical amendments to Board rules G-8 on books and records, G-12 and G-15 on good delivery, and G-19 on suitability.[1] The amendments will become effective upon approval by the Commission.

Rule G-8

Rule G-8(a)(xiii) requires dealers to make and keep records of all deliveries of disclosure documents required under rule G-32. Rule G-8(f) provides that, in lieu of Board rule G-8, municipal securities brokers and dealers (other than bank dealers) may comply with SEC rule 17a-3, which does not incorporate the rule G-8(a)(xiii) recordkeeping requirements. The Board believes, however, that since firms must be able to prove to examiners that rule G-32 disclosures were delivered to customers, dealers must keep records of such deliveries even if they choose to comply with SEC rule 17a-3 in lieu of rule G-8. The technical amendments would clarify this matter by amending rule G-8(f) to require dealers complying with SEC rule 17a-3, instead of rule G-8, to make and keep records of deliveries of official statements as required by rule G-8(a)(xiii).

Rules G-12 and G-15

Rules G-12(e) and G-15(c) specify the requirements for physical deliveries of securities on inter-dealer and customer transactions, respectively. In 1986, the Board amended rules G-12(c)(vi) and G-15(a)(iii) to require a disclosure on the confirmation if securities are subject to federal taxation or the federal alternative minimum tax. In adding these disclosure requirements, certain provisions in rules G-12(c)(vi) and G-15(a)(iii) were renumbered. The technical amendments revise the good delivery rules, correcting the cross-references in rules G-12(e) and G-15(c) to these confirmation provisions, and would conform the securities description required on the delivery ticket by rules G-12(e) and G-15(c) with the descriptions required on confirmations.

Rule G-19

Rule G-19 on suitability prohibits a municipal securities professional from recommending a transaction in municipal securities to a customer unless the professional makes certain determinations with respect to the suitability of the transaction in municipal securities for a customer. Rule G-19 was amended in 1985 to prohibit a professional from recommending a transaction in municipal securities unless the professional has reasonable grounds to believe, and does believe, that the recommendation is suitable for the customer in light of information available from the issuer of the security. Rule G-19(d)(ii) on discretionary accounts was not, however, cross-referenced to this requirement. The technical amendment to rule G-19 would amend paragraph (d)(ii) to prohibit dealers from effecting a

Questions about this notice may be directed to Diane G. Klinke, Deputy General Counsel or Harold L. Johnson, Assistant General Counsel.

[1] SEC File Nos. SR-MSRB-87-8, SR-MSRB-87-7 and SR-MSRB-87-9, respectively. Comments filed with the Commission should refer to the file number.

transaction in municipal securities for a discretionary account unless the dealer first determines that the transaction is suitable in terms of both customer and issuer information. In addition, rule G-19(d)(ii) references subparagraph (c)(ii)(B), which permits a dealer to recommend a transaction in municipal securities when information about the customer is not known or furnished. In keeping with past Board interpretations, the amendment to rule G-19 would prohibit a dealer from affecting a transaction with or for a discretionary account unless the professional first makes an affirmative determination of the suitability of the transaction for a customer.

August 20, 1987

Text of Proposed Amendments*

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

(a) through (e) No change.

(f) *Compliance with Rule 17a-3.* Municipal securities brokers and municipal securiites dealers other than bank dealers which are in compliance with rule 17a-3 of the Commission will be deemed to be in compliance with the requirements of this rule, provided that the information required by subparagraph (a)(iv)(D) of this rule as it relates to uncompleted transactions involving customers; paragraph (a)(viii); paragraph (a)(xi); ~~and~~ paragraph (a)(xii); and paragraph (a)(xiii), shall in any event be maintained.

(g) No change.

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) No change.

(ii) *Securities Delivered.*

(A) All securities delivered on a transaction shall be identical as to the information set forth in subparagraph (E) of paragraph (c)(v) and, to the extent applicable, the information set forth in subparagraphs (A) and ~~(C)~~ (E) of paragraph (c)(vi). All securities delivered shall also be identical as to the call provisions and the dated date of such securities.

(B) No change.

(iii) *Delivery Ticket.* A delivery ticket shall accompany the delivery of securities. Such ticket shall contain the information set forth in subparagraphs (A), (B), (D) (except in the case of transactions in zero coupon, compound interest and multiplier securities, in which case the maturity value shall be shown), (E) through (H), (M) and (N) of paragraph (c)(v) and, to the extent applicable, the information set forth in subparagraphs (A) through ~~(G)~~ (I) of paragraph (c)(vi) and shall have attached to it an extra copy of the ticket which may be used to acknowledge receipt of the securities.

(iv) through (xvi) No change.

(f) through (l) No change.

Rule G-15. Confirmation, Clearance and Settlement of Transactions with Customers

(a) through (b) No change.

(c) *Deliveries to Customers.* Except as provided in section (d) below, a delivery of securities by a broker, dealer, or municipal securities dealer to a customer shall, unless otherwise agreed by the parties or otherwise specified by the customer, be made in accordance with the following provisions:

(i) *Securities Delivered.*

(A) All securities delivered on a transaction shall be identical as to the information set forth in subparagraph (E) of paragraph (a)(i) and, to the extent applicable, the information set forth in subparagraphs (A) and ~~(C)~~ (E) of paragraph (a)(iii). All securities delivered shall also be identical as to the call provisions and the dated date of such securities.

(B) No change.

(ii) *Delivery Ticket.* A delivery ticket shall accompany the delivery of securities. Such ticket shall contain the information set forth in subparagraphs (A), (B), (D) (except in the case of transactions in zero coupon, compound interest and multiplier securities, in which case the maturity value shall be shown), (E) through (H), (L) and (N) of paragraph (a)(i) and, to the extent applicable, the information set forth in subparagraphs (A)~~, (B), (C), and~~ through (E) ~~through~~ and (G) through ~~(H)~~ (J) of paragraph (a)(iii).

(iii) through (xii) No change.

(d) through (e) No change.

Rule G-19. Suitability of Recommendations and Transactions; Discretionary Accounts

(a) through (c) No change.

(d) *Discretionary Accounts.* No broker, dealer or municipal securities dealer shall effect a transaction in municipal securities with or for a discretionary account

(i) except to the extent clearly permitted by the prior written authorization of the customer and accepted in writing by a municipal securities principal or municipal securities sales principal on behalf of the broker, dealer or municipal securities dealer; and

(ii) unless the broker, dealer or municipal securities dealer first determines that the transaction is suitable for the customer as set forth in paragraphs (c)(i) and (c)(ii)(A) of this rule or unless the transaction is specifically authorized by the customer.

(e) No change.

* Underlining indicates new language; strike-through indicates deletions.

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