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Important

See page two. Election of five new Board members.

Calendar

August 1 —Effective date of amendment to G-12(f)(i) and G-15(d)(ii) on automated comparison, clearance and settlement; (G-12(f)(ii) and G-15(d)(iii) amendment effective February 1, 1985); concurrent effective dates for amendment to G-12(f)(i) and G-15(d)(ii) on indirect participants and on temporary exemption of project notes

August 1 —Comments due on G-34 draft amendment on reassignment of CUSIP numbers

August 6 —Effective date of G-15 amendment on standards of delivery to customers

August 14 —Effective date of G-12 amendment on reclamation of inter-dealer deliveries

August 15 —Comments due on draft amendments:
- G-8 and G-15 on customer delivery in sales transactions
- G-32 new issue disclosures

September 1—Effective date of amendment to G-35 and A-16 on arbitration

October 31 —Effective date of amendment to G-15 on transactions in zero coupon, compound interest, and multiplier securities

Pending —SEC approval of amendment to G-5 on remedial notices

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Five New Members Elected to Board

The Board is pleased to announce the election of five Board members to serve three-year terms beginning October 1, 1984. The individuals chosen by the Board are:

H. Keith Brunnemer, Jr.—President, First Charlotte Corporation. Mr. Brunnemer is presently Vice Chairman and Director of North Carolina Municipal Council, Inc.; he has served as President and is now Director of Securities Dealers of the Carolinas.

Leonard M. Leiman—Partner, Reavis & McGrath. Mr. Leiman has served as Chairman of the Committee on Securities Regulation of the Association of the Bar of the City of New York and is a member of the Advisory Council of the Center for the Study of Financial Institutions of the University of Pennsylvania and a member of the Committee on Professional Responsibility of the Association of the Bar of the City of New York.

Samuel A. Ramirez—President, Samuel A. Ramirez & Co., Inc. Mr. Ramirez has served as a member of the Board of Directors of the Public Securities Association and currently is a member of an NASD Business Conduct Committee.

Walter P. Stern—Vice Chairman of Capital Research Company and Chairman of the Board of Capital Research Company, S.A. Mr. Stern is President and Trustee of The Financial Analysts Research Foundation and Chairman and Trustee of the Hudson Institute.

Byron G. Thompson—Vice Chairman of the Board of United Missouri Bank of Kansas City, N.A. Mr. Thompson is a member of the Board of Directors of Old American Insurance Company, Kansas City, Missouri; the Board of Trustees of Rockhurst College; and the Board of Directors of the Dealer Bank Association.

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Notice of Approval

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Rule G-12

Amendments Approved on Reclamation of Inter-Dealer Deliveries

On June 15, 1984, the Securities and Exchange Commission approved certain amendments to the provisions of Board rule G-12 concerning reclamations of deliveries. The amendments adopt certain substantive changes regarding reclamations of securities reported to be lost, stolen, fraudulent or counterfeit, and make other clarifying changes in the text of the rule. At the request of the Board, the Commission has delayed the effectiveness of the amendments for a period of 60 days; the amendments will therefore become effective for all reclamations made on or after August 14, 1984.

Board rule G-12 on uniform practice establishes certain standards concerning the confirmation, comparison, clearance and settlement of transactions between municipal securities brokers and municipal securities dealers. Section (g) of the rule sets forth provisions pertaining to the reclamation of inter-dealer deliveries of securities, including requirements concerning certain aspects of the reclamation procedure and time limits for reclamations due to various types of delivery problems. The amendments revise these provisions to clarify the specifics of the reclamation procedure and its effects and to provide a more appropriate procedure for reclamations of securities which have been reported to be lost, stolen, fraudulent or counterfeit.

With respect to the reclamation procedure, the amendments extensively revise paragraphs (iv), (v), and (vi) of section (g) of the rule to describe in more detail the actions necessary to accomplish a reclamation and the effects of a completed reclamation. The revised paragraphs provide (1) that reclamation (or rejection) is accomplished by returning securities previously delivered, (2) that only those securities on which a delivery problem exists need be returned to accomplish a reclamation, (3) that settlement of a reclamation shall be accomplished by substituting securities in "good delivery" form for those received on the reclamation or by return of the contract moneys previously paid at the time of the delivery being reclaimed, and (4) that reclamation reopens a "fail to deliver" on the reclaimed transaction which may be subsequently completed by a delivery of securities in "good delivery" form or by completion of a close-out procedure. The amendments also detail the appropriate procedure for demanding a reclamation of securities (in circumstances in which the delivering party needs to obtain the return of securities previously erroneously delivered) and make certain technical changes in the language of the rule to distinguish between action by the party originally receiving the delivery (a "reclamation") and action by the original delivering party (a "demand for reclamation").

The amendments make several substantive revisions to the existing rule in the case of a reclamation of securities which have been reported to be lost, stolen, fraudulent or counterfeit, as follows:

(1) The amendments permit a dealer seeking to reclaim several securities reported to be lost, stolen, counterfeit or fraudulent to reclaim any of such securities which come into its possession, without having to delay the reclamation until it has possession of all of the securities which are the subject of the report. Although the amendments require that for all other types of reclamations dealers must reclaim all of the securities needing to be reclaimed at the same time, the Board does not believe that such a requirement is appropriate in the case of a reclamation of lost, stolen, fraudulent or counterfeit securities. Since such securities typically do not have value to a dealer holding them (*e.g.*, they generally cannot be used as collateral for a bank loan), a requirement that a dealer obtain all of the securities before reclaiming any of them would impose a serious financial burden on the dealer, particularly in cases where a large number of securities need to be reclaimed, or where the customers to whom the securities have been redelivered, who are *bona fide* purchasers, are unwilling to return the securities to the dealer.

(2) The amendments require that a dealer seeking to reclaim securities reported to be lost, stolen, fraudulent or counterfeit provide at the time of reclamation some evidence of the report that has been obtained from the issuer of the securities, an agent of the issuer (*e.g.*, the transfer agent or paying agent on the issue), or other authorized person (*e.g.*, a law enforcement official or the facilities manager for the Commission's lost and stolen securities program). In view of the serious nature of a reclamation of securities reported to be lost, stolen, fraudulent or counterfeit, the Board believes that documentation evidencing the basis for the reclamation

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

should be provided to the party obliged to accept the reclamation. The Board notes also that the provision of such documentation eliminates the need for the party receiving the reclamation to verify that a report has been made; in the case of multiple reclamations of the same securities this removes a significant burden on the efficiency of the reclamation process.

(3) The amendments also require, in the case of a reclamation of securities reported to be lost or stolen, that evidence be provided at the time of reclamation that the incident of loss or theft that is the subject of the report had occurred on or prior to the date of the delivery being reclaimed. Since the basis for a reclamation is the discovery of a problem with a delivery which if known at the time of delivery would have caused a rejection of the delivery, the Board believes that it is necessary that such evidence also be provided, to ensure that the reclamation is being made for a valid reason.

(4) The amendments also incorporate into the text of the rule the provisions of a Board interpretive notice dated June 16, 1978, permitting the use of a receipt from a law enforcement agency or other authorized person for purposes of reclaiming securities reported to be lost, stolen, fraudulent or counterfeit which have been seized by such agency or person.

June 22, 1984

Text of Amendments*

Rule G-12. Uniform Practice

(a) through (f) No change.

(g) Rejections and Reclamations.

(i) Definitions. For purposes of this section, the terms "rejection" and "reclamation" shall have the following meanings:

(A) "Rejection" shall mean refusal to accept securities which have been presented for delivery.

(B) "Reclamation" shall mean return by the receiving party of securities previously accepted for delivery ~~or a demand by the delivering party for return of securities which have been delivered~~.

(ii) Basis for Rejection. Securities presented for delivery may be rejected if the contra party fails to make a good delivery.

(iii) Basis for Reclamation and Time Limits. A reclamation may be made by ~~either~~ the receiving party or a demand for reclamation may be made by 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 or demand for reclamation is made within the following time limits:

(A) Reclamation or demand for reclamation by reason of the following shall be made within one business day following the date of delivery:

(1) not good delivery because a coupon, or an interest check in lieu thereof, required by this rule to accompany delivery was missing; or

(2) not good delivery because a certificate or coupon was mutilated in a manner inconsistent with the provisions of paragraphs (e) (vii) or (ix) hereof; or

(3) not good delivery because a legal opinion or other documents referred to in paragraph (e) (xi) 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) Reclamation or demand for reclamation because an interest check accompanying delivery was not honored shall be made within three business days following receipt by the purchaser of the notice of dishonor.

(C) Reclamation or demand for reclamation by reason of the following shall be made within 18 months following the date of delivery:

(1) irregularity in delivery, including, but not limited to, delivery of the wrong issue (*i.e.*, issuer, coupon rate or maturity date), duplicate delivery, delivery to the wrong party or location, or over delivery; or

(2) refusal to transfer or deregister by the transfer agent due to presentation of documentation in connection with the transfer or deregistration which the transfer agent deems inadequate; or

(3) information pertaining to the description of the securities was inaccurate for either of the following reasons:

(i) information required by subparagraph (c) (v) (E) of this rule was omitted or erroneously noted on a confirmation, or

(ii) information material to the transaction but not required by subparagraph (c) (v) (E) of this rule was erroneously noted on a confirmation.

(D) Reclamation or demand for reclamation by reason of the following may be made without any time limitation:

(1) the security delivered is reported missing, stolen, fraudulent or counterfeit; or

(2) not good delivery because notice of call for less than the entire issue of securities was published on or prior to the delivery date and the securities were not identified as "called" at the time of trade.

The running of any of the time periods specified in this paragraph shall not be deemed to foreclose a party's right to pursue its claim via other means, including arbitration.

(iv) Procedure for Rejection or Reclamation.

(A) If a party elects to reject or reclaim securities, rejection or reclamation shall be effected by ~~sending~~ returning the securities to the party who had previously delivered them. In the case of a reclamation, the reclaiming party may reclaim all (or, in the case of a reclamation of securities reported to be missing, stolen, fraudulent or counterfeit, any part) of the securities which were not in "good delivery" form on the delivery date in lieu of reclaiming all of the securities delivered. In the case of a reclamation of securities reported missing, stolen, fraudulent or counterfeit, in the event that the securities have been seized by the issuer, an agent of the issuer, or a law enforcement official, reclamation by means of a presentation of a receipt for such securities

*Underlining indicates additions; broken line indicates deletions.

executed by such person will meet the requirements of this subparagraph (A).

(B) The rejecting or reclaiming party shall also provide a written notice which contains sufficient information to identify the delivery to which the notice relates ~~including~~. The notice shall have attached to it a copy of the original delivery ticket or other proof of delivery, and shall state, to the extent not set forth on the attached ~~such~~ document, the following:

(1) the name of the party delivering the securities;

(2) the name of the party receiving the securities;

(3) a description of the securities;

(4) the date the securities were delivered;

(5) the date of rejection or reclamation;

(6) the par value of the securities which are being rejected or reclaimed;

(7) in the case of a reclamation, the amount of money the securities are reclaimed for;

(8) the reason for rejection or reclamation; and

(9) the name and telephone number of the person to contact concerning the rejection or reclamation.

(C) A party demanding reclamation of securities shall send to the contra-party a notice demanding reclamation of the securities. Such notice shall have attached to it a copy of the original delivery ticket or other proof of delivery, and shall state, to the extent not set forth on the attached document, the information specified in the items (1) through (9) of subparagraph (B) above.

(D) In the event of a reclamation or a demand for reclamation of a security reported missing, stolen, fraudulent or counterfeit, the reclaiming party or the party demanding reclamation shall also provide a document or documents made available by the issuer, an agent of the issuer, or other authorized person evidencing the report and, in the case of securities reported missing or stolen, evidencing that the loss or theft that is the subject of the report had occurred on or prior to the original delivery date.

(v) Manner of Settlement of Reclamation. Upon reclamation properly made pursuant to this rule, the party receiving the reclamation shall immediately give the party making the reclamation either the correct securities in proper form for delivery in exchange for the securities originally delivered, or the money amount (or the appropriate portion of the money amount) of the original transaction. A party receiving a notice of demand for reclamation shall reclaim the securities which are the subject of such a notice as promptly as possible.

~~(v) Acceptance or Delivery of Securities. Upon rejection or reclamation properly made pursuant to this rule, the securities rejected or reclaimed shall be accepted or delivered as required by the notice of rejection or reclamation and the exchange of correct monies or securities shall be made.~~

(vi) Effect of Rejection or Reclamation. Rejection or reclamation of securities shall not constitute a cancellation of the transaction. In the event of a reclamation of securities, unless otherwise agreed, the party to whom the securities have been reclaimed shall be deemed to be failing to deliver the securities, as of the original transaction settlement date, until such time as a proper delivery is made or the transaction is closed out in accordance with section (h) of this rule.

(h) through (l) No change.

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Rules G-12 and G-15

Amendments Approved on Temporary Exemption of Project Notes from Automated Clearance Requirements

On July 31, 1984 the Securities and Exchange Commission approved certain amendments to the provisions of Board rules G-12(f) and G-15(d) concerning the use of automated confirmation or comparison systems on certain transactions in municipal securities. The amendments exempt transactions in public housing authority project notes from these provisions for a short period of time, during the implementation of a book-entry system for such securities.

On August 1, 1984, certain amendments to Board rules G-12(f) and G-15(d) will become effective which will require that transactions on which certain conditions are met be confirmed and/or compared through the automated facilities of a clearing agency registered with the Commission.[1] The conditions under which these requirements would apply involve, in part, whether the securities which are the subject of the transaction are eligible for the automated confirmation or comparison services offered by the clearing agencies: transactions involving securities which have been assigned a CUSIP number are generally eligible for such services and therefore would be subject to the requirement for use of the automated confirmation or comparison systems. Securities which are not eligible for such services (*i.e.*, securities which have not been assigned a CUSIP number) would not be subject to these requirements.

At the time of adoption of these amendments, certain short term municipal securities (public housing authority project notes and others) were not eligible for CUSIP number assignment, and therefore were not eligible for inclusion in the automated clearance systems referenced under the rules. Recently, however, the United States Department of Housing and Urban Development, the Federal Reserve Bank of New York, and Bankers Trust Company have announced completion of the development of a system for the issuance and trading of public housing authority project notes in pure book-entry form.[2] As a part of the development of this book-entry system HUD has sought and obtained a change in the eligibility rules of the CUSIP system to make project notes eligible for CUSIP number assignment. The CUSIP Service Bureau commenced assigning numbers to project notes at the time the pilot of the pure book-entry program began in June. As a result of the assignment of CUSIP numbers to project notes, these securities will, as a technical matter, become eligible securities in the automated comparison and confirmation systems offered by the registered clearing agencies and therefore subject to the automated comparison and confirmation requirements becoming effective on August 1.

Although the Board believes that it is desirable that the requirements under rules G-12(f) and G-15(d) for the use of automated systems for comparison or confirmation of transactions apply to transactions in project notes, the Board considers it preferable that they not be applied to such securities during the initial stages of implementation of the book-entry system. Applying these requirements at that time would be likely to complicate the implementation of the system, and cause difficulties to the efforts of persons trading project notes to make any changes necessary to permit them to use the system. Accordingly, the amendments approved by the Commission revise the requirements of rules G-12(f) and G-15(d) to exempt transactions in public housing authority project notes from the automated confirmation and comparison requirements until January 1, 1985.[3]

July 31, 1984

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

[1]Other amendments to these rules which will require the use of book-entry clearance and settlement systems on certain transactions are scheduled to become effective on February 1, 1985.

[2]Information about the proposed book-entry system is available from Mr. Theodore R. Daniels, Director, Project Financing Division, U.S. Department of Housing and Urban Development, (202) 755-6444.

[3]The Board notes that the requirements becoming effective on February 1, 1985, with respect to the book-entry clearance of transactions in depository-eligible securities will not present problems to the book-entry system for project notes, since project notes will not be eligible for depository services for the foreseeable future (due to the fact that transactions in project notes settle in federal funds).

Text of Amendments*

Rule G-12. Uniform Practice

(a) through (e) No change.

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

(i) Notwithstanding the provisions of sections (c) and (d) of this rule, with respect to a transaction in municipal securities which are eligible for comparison through the facilities of a clearing agency registered with the Securities and Exchange Commission, if both parties to such transaction are members in one or more of such clearing agencies (and such clearing agencies are interfaced or linked for comparison purposes), each party to the transaction shall submit to its clearing agency information concerning the transaction, as required by the clearing agency's rules, for purposes of automated trade comparison. The provisions of this paragraph (i) shall apply to transactions effected on or after August 1, 1984<u>; provided, however, that transactions in federally guaranteed public housing authority project notes effected prior to January 1, 1985 shall not be subject to the provisions of this paragraph</u>.

(ii) and (iii) No change.

(g) through (l) No change.

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

(a) through (c) No change.

(d) Delivery/Receipt vs. Payment Transactions.

(i) No change.

(ii) No broker, dealer or municipal securities dealer who is, 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 to which a CUSIP number has been assigned 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 confirmation and acknowledgement of such transaction. The provisions of this paragraph (ii) shall apply to transactions effected on or after August 1, 1984<u>; provided, however, that transactions in federally guaranteed public housing authority project notes effected prior to January 1, 1985 shall not be subject to the provisions of this paragraph</u>.

(iii) No change.

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Rules G-12 and G-15

Interpretive Notice Concerning Automated Clearance Requirements

The Board has recently received several inquiries from interested members of the municipal securities industry concerning certain aspects of the requirements of rules G-12(f) and G-15(d) for the automated confirmation and comparison of transactions which become effective on August 1, 1984. In particular, several regional dealers and others have inquired concerning the application of those requirements to transactions effected on a "when, as and if issued" basis and other transactions effected for delayed settlement (*i.e.*, with a settlement date later than the customary fifth business day after the trade date). These persons have noted that certain of the systems offered by the registered clearing agencies for use in connection with these requirements do not at the present time have the capabilities necessary to permit the confirmation or comparison of some or all of these types of transactions on a timely basis; although these capabilities will be added to these systems in the near future, these persons inquire as to the proper method of handling these transactions during the interim before these capabilities become available.

The Board has recently considered this question and has determined that, to the extent the existing systems for the automated comparison or confirmation cannot be used in connection with these transactions, the automated comparison or confirmation requirements of rules G-12(f) and G-15(d) would not apply to them. Therefore, since the automated inter-dealer comparison systems presently in use do not have the capability of handling "when issued" or delayed settlement transactions, the automated comparison requirements of rule G-12(f) would not apply to such transactions.[1] Similarly, since the automated dealer-customer confirmation systems presently in use do not accommodate "when issued" transactions, the automated confirmation requirements of rule G-15(d) would not apply to such transactions. At such time as these systems are modified so that these capabilities become generally available, the requirements will become applicable to such transactions; the Board expects that the registered clearing agencies will make the necessary modifications promptly, so that the automated comparison or confirmation systems become available on these transactions in the near future.

July 25, 1984

Questions concerning this notice or the automated clearance requirements generally may be directed to Donald F. Donahue, Deputy Executive Director.

[1]To the extent that transactions for accelerated settlement cannot be handled through the automated comparison systems, they would similarly be exempt from the application of the automated comparison requirement.

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Rule G-15

Effective Date Delayed for Amendment Concerning Confirmation Disclosures on Zero Coupon, Compound Interest and Multiplier Securities

The Board has delayed until October 31, 1984, the effective date of a recent amendment to rule G-15(a) concerning the information to be set forth on confirmations of transactions in zero coupon, compound interest and multiplier securities. The delay from the originally scheduled September 1, 1984, effective date was approved after industry representatives advised the Board that other confirmation disclosures required by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) go into effect on October 31. It was suggested that the programming and other costs associated with complying with the various confirmation disclosure requirements would be minimized if the new rule G-15 disclosure requirements became effective on the same date as the TEFRA requirements.

The amendment, which was approved by the Securities and Exchange Commission on March 2, 1984, applies to transactions with customers in municipal securities which mature in more than two years and pay investment return solely at redemption. It requires that municipal securities brokers and municipal securities dealers which sell these securities to customers include on the final customer confirmation the following information:

- that the customer will not receive periodic interest payments;
- if applicable, that the securities are callable at a price below maturity value; and
- if the securities are callable and available in bearer form, that unless the securities are in registered form, the absence of periodic payments may make it difficult for the customer to determine whether the securities have been called.

The amendment provides the following statement appearing in the description field of the confirmation will be deemed to satisfy these requirements: "No periodic payments—callable below maturity value without notice by mail to holder unless registered." The amendment also permits the statement to be contained as a legend on the reverse side of the confirmation provided that the presence of the legend is highlighted by a statement in a description field (*e.g.*, "Important—see legend ___ below").

July 16, 1984

Questions concerning this amendment may be directed to Angela Desmond, General Counsel.

Text of Amendment*

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

(a) Customer Confirmations

(i) through (iv) No change.

(v) The confirmation for a transaction in securities maturing in more than two years and paying investment return solely at redemption:

(A) shall not show the par value of the securities specified in subparagraph (D) of paragraph (a)(i) ~~and~~;

(B) shall not be required to show the amount of accrued interest specified in subparagraph (J) of paragraph (a)(i);

(C) ~~Such confirmation~~ shall ~~, however,~~ show the maturity value of the securities and specify that the interest rate on the securities is "0%";

(D) shall indicate that the customer will not receive periodic payments;

(E) if applicable, shall indicate that the securities are callable at a price below the maturity value; and

(F) if the securities are callable and available in bearer form, shall indicate that unless the securities are registered it may be difficult for the customer to determine whether the securities have been called.

A statement in the description field of the confirmation or contained as a legend on the reverse side of the confirmation to the following effect will be deemed to satisfy the requirements of subparagraphs (D), (E) and (F) above: "No periodic payments—callable below maturity value without notice by mail to holder unless registered." Notwithstanding the foregoing, if the requisite information is set forth on the reverse side of the confirmation, its presence must be highlighted by a statement in the description field (*e.g.*, "Important—See legend ___ below").

(vi) through (ix) No change.

*Underlining indicates additions, broken rule indicates deletions.

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G-35 and A-16

Amendments Approved on Arbitration

On June 14, 1984, the Securities and Exchange Commission approved the Board's amendments to rule G-35, the code of arbitration, and rule A-16, arbitration fees and charges. These changes will conform the provisions of the Board's arbitration code and arbitration fee schedule to recent amendments to the Uniform Arbitration Code developed by the Securities Industry Conference on Arbitration, which is composed of the representatives of the Board, nine other self-regulatory organizations, four public members, and the Securities Industry Association. The Uniform Code, as implemented by the various self-regulatory organizations, has established throughout the securities industry a uniform system of arbitration procedures. The amendments become effective on September 1, 1984.

Provisions of Amendments

Jurisdiction.—The amendments permit a court which has jurisdiction over a claim to direct that the claim be resolved by arbitration. Currently, if a claim is six years old or more, it is no longer eligible for arbitration. The amendments make the code's time limitation coextensive with various state statutes of limitations and permit all securities-related disputes which are eligible for a judicial disposition to be resolved by arbitration.

Fees.—The changes increase the upper dollar limit on customer small claims arbitrations from $2,500 to $5,000. In addition, the increases in certain arbitration fees will help offset the effects of inflation since the code's adoption in 1978. However, fees for claims under $2,500 were lowered to match the new schedule of fees for customer small claims. The amendments also authorize arbitrators to assess costs in any dispute that was settled or withdrawn subsequent to the commencement of the first hearing.

Procedures.—The amendments describe the arbitrators' discretion to bar the presentation by the respondent of certain facts and defenses not included in responsive pleadings prior to hearing. This amendment should result in more complete answers filed by respondents.

Pleadings and Challenges to Arbitrators.—The amendments provide that the Director of Arbitration may determine preliminarily whether multiple claimants, respondents and/or third party respondents are to proceed in the same or separate arbitrations. Also, claimants, respondents, and third-party respondents have the right to one peremptory challenge and unlimited challenges for cause. The Director of Arbitration is given the discretion to extend the time period allowed for a party to challenge an arbitrator when necessary (*e.g.*, when a party requires more time to investigate the background of an arbitrator prior to making a decision regarding the use of a peremptory challenge). Finally, the amendments allow parties to amend pleadings prior to the appointment of an arbitration panel.

The Board has delayed the effective date of these requirements until September 1, 1984, the date similar amendments filed by the NASD will become effective, to assure uniformity in the arbitration facilities available to the securities industry and to avoid forum shopping.

July 10, 1984

Questions concerning the amendments may be directed to Diane G. Klinke, Deputy General Counsel.

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
~~$2500~~ $1,000 or less	~~$50~~ $15
Above $1,000—but not exceeding $2,500	$25
Above $2,500—but ~~less than~~ not exceeding $5,000	$100
Above $5,000—but ~~less than~~ not exceeding $10,000	$200
Above $10,000—but ~~less than~~ not exceeding $20,000	~~$250~~ $300
Above $20,000—but ~~less than~~ not exceeding $100,000	~~$350~~ $500
Above $100,000 ~~and over~~	~~$550~~ $750

*Underlining indicates new language; broken rule indicates deletions.

Where the amount in dispute is ~~less than~~ $10,000 or less no additional deposits shall be required despite the number of sessions. Where the amount in dispute is above $10,000 ~~or more~~ 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 awards, may determine the amount chargeable to the parties as forum fees (fees) and shall determine by whom such fees shall be borne. Where the amount in dispute is ~~less than~~ $10,000 or less, total fees to the parties shall not exceed the amount deposited. Where the amount in dispute is above $10,000 ~~or more but less than~~ but does not exceed $20,000, the maximum fee shall be ~~$250~~ $300 per session. Where the amount in dispute is above $20,000 ~~or more~~ ~~but less than~~ but does not exceed $100,000, the maximum fee shall be ~~$350~~ $500 per session.

Where the amount in dispute is above $100,000 ~~or more~~, the maximum fee shall be ~~$550~~ $750 per session. In no event shall the fees assessed by the arbitrators exceed ~~$550~~ $750 per session. Amounts deposited by a party shall be applied against fees, if any. If the fees are not assessed against a party who has 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 ~~$550~~ $750.

(4)–(5) No change.

(6) The arbitrators may assess costs in any matter settled or withdrawn subsequent to the commencement of the first session.

Rule G-35. Arbitration.

Sections 1–4. No change.

Section 5. Initiation of Proceedings.

(a) No change.

(b)(1) The respondent or respondents shall, within 20 business days of receipt of service, file with the Director of Arbitration one executed Submission Agreement and one copy of the Answer. The Answer shall ~~contain all available defenses to the Statement of Claim~~ specify all available defenses and relevant facts that will be relied upon at hearing and may set forth any related counterclaim the respondent or respondents may have against the claimant and any third-party claim against any other party or person upon any existing claim, dispute, or controversy to arbitration under this Arbitration Code.

(2)(i) A respondent, responding claimant, cross-claimant or third-party respondent who pleads only a general denial as an Answer may, upon written objection by the adversary party to the Director of Arbitration before the hearing, in the discretion of the arbitrators, be barred from presenting any facts or defenses at the time of the hearing.

(ii) A respondent, responding claimant, cross-claimant or third-party respondent who fails to specify all available defenses and relevant facts in such party's Answer, may, upon objection by the adversary party, in the discretion of the arbitrators, be barred from presenting the facts or defenses not included in such party's answer at the hearing.

(c) through (e) No change.

(f)(1) With respect to any dispute, claim or controversy submitted to arbitration, any party or person eligible to submit a claim under this Arbitration Code shall have the right to proceed in the same arbitration against any other party or person upon any claim directly related to such dispute.

(2) For purposes of this subsection, the Director of Arbitration shall be authorized to determine preliminarily whether a claim is directly related to the matter in dispute and to join any other party to the dispute and to consolidate the matter for hearing and award purposes. In arbitrations where there are multiple claimants, respondents and/or third-party respondents, the Director of Arbitration shall be authorized to determine preliminarily whether such parties should proceed in the same or separate arbitrations.

(3) All final determinations in respect of joining ~~and~~, consolidation and multiple parties under this subsection shall be made by the arbitration panel.

Section 6. Time Limitations Upon Submission.

(a) No claim, dispute or controversy shall be eligible for submission to arbitration under this Arbitration Code in any instance where six years shall have elapsed from the occurrence of the act or event giving rise to the claim, dispute or controversy. This section shall not extend applicable statutes of limitation, nor shall it apply to any case which is directed to arbitration by a court of competent jurisdiction.

(b) The six-year time limitation upon submission to arbitration shall not apply when the parties have submitted the dispute, claim or controversy to a court of competent jurisdiction. The six-year time limitation shall not run for such period as the court shall retain jurisdiction upon the matter submitted.

Section 7. No change.

Section 8. Composition and Appointment of Panels.

(a) No change.

(b) Notice of Appointment; Objections. The Director of Arbitration shall inform the parties to the proceeding of the names and business affiliations of the persons appointed to the panel at least eight business days prior to the date fixed for the initial hearing session. In ~~an~~ any arbitration proceeding ~~being heard by a panel consisting of more than one arbitrator~~, each party shall have the right to one peremptory challenge. In arbitration proceedings where there are multiple claimants, respondents and/or third party respondents, the claimants shall have one peremptory challenge, the respondents shall have one peremptory challenge and the third-party respondents shall have one peremptory challenge, unless the Director of Arbitration determines that the interests of justice would best be served by awarding additional peremptory challenges. Each party shall also have the right to request that the Arbitration Committee remove other members of the panel which the Arbitration Committee

shall be empowered to do in its sole discretion. Unless extended by the Director of Arbitration, a party wishing to exercise a peremptory challenge or to request that the Arbitration Committee remove members of the panel must do so by notifying the Director of Arbitration in writing within five business days of notification of the identity of the persons named to the panel. There shall be unlimited challenges for cause.

Sections 9–10. No change.

Section 11. Tolling and Time Limitations for the Institution of Legal Proceedings.

Where permitted by law, the time limitations which would otherwise run or accrue for the institution of legal proceedings, shall be deemed tolled when ~~all the parties shall have filed duly executed submission agreements upon the claim, dispute or controversy submitted to arbitration~~ a duly executed Submission Agreement is filed by the claimant. The tolling shall continue for such period as the Board shall retain jurisdiction upon the matter submitted.

Sections 12–28. No change.

Section 29. Amendment of Pleadings.

~~No amendment to the pleadings shall be permitted after receipt of a responsive pleading except upon the consent of the arbitrators and upon such terms and conditions as they may direct~~.

(a) After the filing of any pleadings, if a party desires to file a new or different pleading, such change must be made in writing and filed with the Director of Arbitration. The Director of Arbitration shall endeavor to serve promptly by mail or otherwise upon all other parties a copy of said change. The other parties may, within 10 business days from the receipt of service, file a response with the Director of Arbitration.

(b) After a panel has been appointed, no new or different pleading may be filed except for a responsive pleading as provided for in (a) above or with the panel's consent.

Sections 30–33. No change.

Section 34. Simplified Arbitration for Small Claims Relating to Transactions with Customers

(a) Any claim, dispute or controversy, arising between a customer and a municipal securities broker or municipal securities dealer, subject to arbitration under this Arbitration Code, which involves a dollar amount not exceeding ~~$2500.00~~ $5,000 (exclusive of attendant costs and interest), shall upon demand of the customer or by written consent of the parties be arbitrated as hereinafter provided.

(b) No change.

(c) The claimant shall pay the sum of $15~~.00~~ if the amount in controversy is $1,000 or less, $25 if the amount is more than $1,000 but $2,500 or less, or $100 if the amount in controversy is more than $2,500 but does not exceed $5,000 upon filing of the Submission Agreement. The final disposition of this sum shall be determined by the arbitrator.

(d) The Director of Arbitration shall endeavor to serve promptly by mail or otherwise on the respondent one copy of the Submission Agreement and Statement of Claim. The respondent shall within 20 calendar days from receipt of service file with the Director of Arbitration one executed copy of the Submission Agreement and one copy of an answer, together with supporting documents. The answer shall designate all available defenses to the claim and may set forth any related counterclaim and/or related third-party claim the respondent may have against the claimant or any other person. The term "related counterclaim" for the purposes of this provision means a counterclaim related to a customer's account or accounts with a municipal securities broker or municipal securities dealer. If the respondent has interposed a third-party claim, the Director of Arbitration shall endeavor to serve promptly by mail or otherwise a copy of the third-party claim together with a copy of the Submission Agreement on such third-party who shall respond in the manner herein provided for response to the claim. If the respondent files a related counterclaim exceeding ~~$2500.00~~ $5,000, the arbitrator may refer the claim, counterclaim and/or third-party claim, if any, to a panel of arbitrators, the size and composition of which shall be determined in accordance with section 12 hereof, or, he may dismiss the counterclaim and/or third-party claim without prejudice to the counter-claimant and/or third-party claimant in a separate proceeding. ~~The costs to the claimant under either alternative shall in no event exceed $15.00~~.

(e)–(l) No change.

Section 35. No change.

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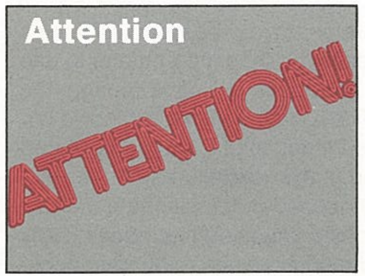

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- [ ] Other ______

Board Comment Letter to CFTC

Chicago Board of Trade's Proposed Futures Contract on Index on Municipal Securities

Ms. Jane K. Stuckey
Secretary
Commodity Futures Trading
Commission
2033 K Street, N.W.
Washington, D.C. 20581

Dear Ms. Stuckey:

I am writing on behalf of the Municipal Securities Rulemaking Board in response to the February 8, 1984, invitation of the Commission's Division of Economics and Education for the Board to comment on the recent application by the Chicago Board of Trade for designation as a contract market in Long-Term Municipal Bond Index futures.

As you may be aware, the Board is a self-regulatory organization created under Section 15B of the Securities Exchange Act of 1934, as amended, and charged with rulemaking responsibility with respect to the activities of all persons engaged in the municipal securities business.[1] Section 15B(b)(2)(C) of the Act grants the Board very broad authority to adopt rules which, among other things, should be

> designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, . . . to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest. . . .

The Board has reviewed the CBOT proposal with particular regard to this Congressional directive. The Board's comments on the proposal, therefore, address its concerns with respect to the impact of the trading and sale of the proposed futures contract on investors in municipal securities and on the cash market for municipal securities.

Impact on Investors in Municipal Securities

The Board understands that many futures commission merchants intend, if the proposed contract on the municipal securities index is approved for trading by the Commission, to market these contracts to individuals and other small investors, and, in particular, to small investors who currently hold municipal securities. Investors in municipal securities traditionally seek relatively safe, generally longer term investments and, of course, tax-exempt income. These investors include sophisticated institutions as well as smaller, less sophisticated institutions and individuals. The Board is concerned that these less sophisticated municipal securities investors may not be knowledgeable enough to understand the complexities as well as the increased risks involved in futures trading or to recognize that municipal securities and futures contracts on a municipal securities index serve very different investment purposes. In particular, these investors may not be able to make an independent evaluation of the merits of taking a position in the proposed contract or to determine whether such an investment is appropriate for their investment needs.

Pursuant to its rulemaking mandate noted above, the Board has adopted rule G-19 pertaining to suitability of recommendations and transactions in municipal securities. The rule permits a municipal securities broker or dealer to recommend a transaction in municipal securities to a customer only if, after making a reasonable inquiry, the municipal securities broker or dealer has reasonable grounds to believe and does believe that the recommendation is suitable for the customer. In addition, the Board has stated that a municipal securities professional may recommend a security only if there is a reasonable basis for the recommendation.[2] Thus, a municipal securities dealer must make an independent judgement whether to recommend a particular security to a particular customer. This duty is in addition to the dealer's obligation under Rule G-17, the Board's fair dealing rule, and under the antifraud provisions of the federal securities laws to disclose all material facts about a transaction at or before the time of trade.[3] These requirements of Board rules, of course, would not apply to futures professionals or to municipal securities professionals who sell the proposed contract to investors.

[1] Copies of the Board's rules are being provided with this letter. A general description of the municipal market is also enclosed as Appendix A to this letter.

[2] General Review of Requirements Regarding Suitability of Recommendations and Transactions *MSRB Reports*, Vol. 2, No. 5 at 11 (July 1982). A copy of this notice is also attached for your information. [Ed. Note.—The notice is not reprinted here.]

[3] Moreover, municipal securities may only be sold to investors by individuals qualified pursuant to Board rules G-2 and G-3 on professional qualifications. The Board's Professional Qualifications Advisory Committee currently is considering whether the Board's Municipal Securities Representative Qualification Examination should test for some knowledge of futures contract trading. The Board suggests that qualifications examinations for futures professionals should test for some knowledge of municipal securities.

The Board is not aware of any explicit suitability requirements similar to rule G-19 applicable to futures commission merchants who would be retailing futures on the municipal securities index to the public. The Board is concerned that the lack of any formalized regulations in this area applicable to the futures industry suggests that less sophisticated investors in municipal securities may not be adequately protected against recommendations by futures professionals of inappropriate investments in the relatively complex proposed contract. Further, it is likely that the proposed contract could be sold to investors in municipal securities as a hedge or other device by individuals who, although authorized to sell futures contracts, may not have adequate knowledge of municipal securities.

The Board respectfully suggests that, if the public interest is to be served, the Commission should consider requiring, at a minimum, that futures commission merchants provide potential investors in the proposed contract with certain standardized written disclosures highlighting the differences between an investment in a municipal security and an investment in the proposed contract. These disclosures would focus on the proposed contract and would be in addition to the risk disclosure statement currently provided to investors in futures contracts by futures commission merchants. These disclosures could highlight, among other things, the taxable nature of any income derived from the contract and explain the strategies and other reasons for investing in the proposed contract of interest to municipal securities investors. It also would be appropriate for the document to advise potential investors of the lack of any explicit suitability obligations on futures commission merchants who recommend transactions in the proposed contract. In this regard, it might be appropriate for the document to advise investors that the proposed contract does not fall under the jurisdiction of the Board and that the rules applicable to transactions in municipal securities do not apply to the proposed contract. A comparable example would be the specialized disclosures which the Commission has mandated in Regulation 33.7 for exchange traded options on futures contracts. The disclosures we recommend recognize the need for additional protections for users of this index contract who may be unsophisticated. The Board would be pleased to assist in the preparation of such a document.

The Board is concerned that, without having certain minimum regulatory protections in place as a supplement to existing antifraud and fair dealing provisions, less sophisticated investors will be vulnerable to unnecessary risks and losses. The Board respectfully urges the Commission to take the steps described above to minimize or eliminate this possibility.

Impact on the Cash Market

The Board has also reviewed the proposed contract to assess the likelihood that persons might engage in activities in the cash market in order to manipulate the proposed contract or use the contract to manipulate the underlying cash market. The Board recognizes that the cash settlement feature of the proposed contract and the fact that the contract is an index based upon quotations on a wide variety of issues may make it more difficult for a would-be manipulator to use the proposed contract for purposes of manipulating the underlying cash market. The Board is unsure, however, whether the value of the contract might be manipulated through activities conducted in the cash market. In particular, certain aspects of the proposed index (such as the fact that a portion of the quotations composing the index on any given day will be estimated market values relating to securities which have not traded on that day) appear to render the value of the index underlying the proposed contract more susceptible to manipulation.

Several Board rules prohibit certain activities in the cash market which might be intended to manipulate the value of the index underlying the proposed contract. Board rule G-17 generally requires all municipal securities brokers and dealers to deal fairly with all persons and not to engage in any deceptive, dishonest, or unfair practice. More specifically, Board rule G-13 on quotations requires that all quotations (other than "nominal" quotations clearly labelled as such) represent *bona fide* bids or offers for the securities quoted (*i.e.,* the person making the quotation must generally stand ready to purchase or sell the securities at the quoted price), and that all quotations (including "nominal" quotations) be based on the best judgment of the quoting professional as to the fair market value of the quoted securities. Board rule G-14 imposes certain standards on persons making reports of transactions in municipal securities, including a requirement that such reports not be in furtherance of any manipulative purpose. Board rule G-18 imposes a "best execution" requirement on, among others, a municipal securities broker's broker effecting transactions on behalf of other municipal securities professionals. The continued vigorous enforcement of these rules should help to ensure that the quotations which are the basis for the index accurately reflect the fair market value of the securities quoted and deter attempts to manipulate the value of the index underlying the proposed contract.

The Board is concerned, however, that identifying and taking appropriate enforcement action against activities in the cash market which violate Board rules may be difficult at best if these activities are undertaken solely for purposes of manipulating the value of the index underlying the proposed contract. In such circumstances the violative nature of the conduct may not be readily perceived in a review of the activities themselves and may only become apparent when these activities are viewed in the context of the related positions taken in the futures market. The effective enforcement of the Board's rules against attempts to manipulate the futures contract through activities in the cash market, therefore, is to some extent dependent upon the enforcement agencies' ability to correlate cash market and futures market activities. Therefore, the Board recommends that some formal means be developed of coordinating the surveillance and enforcement activities of those persons responsible for regulating participants in the cash market for municipal securities[4] and those responsible for regulating participants

[4]These agencies include, for municipal securities firms, the National Association of Securities Dealers, Inc., and, for dealer banks, the Office of the Comptroller of the Currency (for national banks), the Board of Governors of the Federal Reserve System (for state member banks), and the Federal Deposit Insurance Corporation (for state non-member banks). The Securities and Exchange Commission also has general authority to enforce the Board's rules.

in the market for any futures contract relating to municipal securities. In particular, the Board suggests that a mechanism be developed for the regular exchange of information among such persons. For example, it would seem helpful if the agencies responsible for regulating the cash market were provided on a periodic basis with large trader reports on open positions in a municipal contract.[5] The Board notes that the CBOT recently has indicated a willingness to share surveillance information in this area. The Board would be pleased to provide any assistance the Commission might desire in developing any such regulatory coordination procedures.

The Board appreciates this opportunity to comment on the proposed futures contract on an index of municipal securities. Should the Commission need any other information from the Board, please contact Angela Desmond, General Counsel, or Donald Donahue, Deputy Executive Director, of the Board's staff.

Sincerely,
[s] Arthur T. Cooke, Jr.
Chairman

Attachments
cc: Chairman Susan M. Phillips
Commissioner Kalo A. Hineman
Commissioner Fowler C. West
Commissioner William E. Seale
Dr. Paula Tosini, Division of Economics and Education
Ronald Hobson, Division of Economics and Education

APPENDIX A

The Municipal Markets

Certain information about the size and characteristics of the municipal markets may be helpful to the Commission in reviewing the proposed contract.

Municipal Issues

The sheer size of the municipal securities markets is illustrated by the CUSIP system for security identification numbers, which currently has over one million numbers assigned to long-term[1] issues of municipal securities (more than twenty times the number of numbers assigned to corporate issues). In addition, given that many issues are sold each year which are too small to be eligible for number assignment, it is clear that a large but unknown number of smaller issues of municipal securities exist which are not reflected in the CUSIP system totals. Further, a number of issues which subsequently appear in the municipal secondary market originate as so-called "private placements," with the entire issue originally purchased directly from an issuer by an institutional portfolio;[2] these issues also are generally not assigned CUSIP numbers at issuance, and therefore might not appear in the CUSIP system totals. Market participants estimate, therefore, that in excess (perhaps well in excess) of 1,300,000 issues of long-term municipal securities exist which may be traded and sold in the municipal market.

These issues represent a wide variety of securities. The size of these issues ranges from $1,000 or less in total principal amount to $1 billion. A substantial percentage of the issues are of less than $1 million in total principal amount—research provided to the Board in 1979 suggests that approximately 40% of the issues sold each year are in this category.[3] These extremes of issue size reflect the multiplicity of issuers in the municipal market—about 80,000 entities (states, counties, municipalities, townships, school districts, and the like) are potential issuers of municipal securities, and approximately 52,000 of these have issues currently outstanding. The vast bulk of these are small issuers—approximately 96% of the total 80,000 entities with issuing authority are municipalities, townships, or school or special districts, all of which are relatively small governmental units.

In contrast to corporate debt issues, municipal securities are often issued in serial maturities,[4] with a single new issue actually composed of ten, twenty or more separate "issues," each having a different interest rate and maturity date.[5] Further, issues are often subdivided still further by distinctions in security or other features that may be reflected in distinctions in the market value of the different securities.[6] For example, otherwise identical securities may be distinct in the particular terms of a call provision (*e.g.,* the dates and prices at which a call might occur, or the funds which might be used for the exercise of the call) or in callability itself (*e.g.,* certain securities being callable and other otherwise identical securities being non-callable). Revenue securities may have the same issuer, interest rate, and maturity date but different sources of revenue (*e.g.,* housing issues, with revenues from different types of housing projects pledged to different parts of an issue). Securities which are general obligations of a municipality may have different sources of payment pledged to different parts of a single issue, with certain parts payable out of such pledged sources ("self-supporting" or "self-liquidating" debt) and other parts payable either from a mixture of such pledged sources and funds from the municipality's general tax revenues or exclusively from the municipality's taxing power. Further, securities which may be identical in all material respects at the time of issuance may subsequently be altered so that this is

[5]Agencies receiving these reports would be alerted to pay particular attention to certain futures-related cash market activities during the course of a periodic compliance examination of the dealer involved. Under Board rule G-16, all municipal securities brokers and dealers are subject to an examination for compliance with the Board's (and other applicable) rules not less than once every two years, and more frequently if necessary or appropriate.

[1]CUSIP numbers are currently not assigned to municipal securities with less than one year to maturity (approximately 2,000 issues per year).

[2]Such "private placements" generally do not comply with corporate private placement requirements with respect to subsequent transfers.

[3]At the same time it should be noted that such issues appear to constitute only approximately 3–5% of the dollar volume of all municipal securities issued in a given year.

[4]Serial maturities are required for most municipal general obligation issues to correspond with annual tax levies made by the issuer to pay an amount sufficient to service both principal and interest. Thus, debt service tends to be level (*i.e.,* approximately the same amount) over the term of the issue.

[5]The term "issue" is often used to refer to each separate rate and maturity, as well as to the whole new issue itself.

[6]It should be noted that these distinctions in maturity and other features give rise to CUSIP number distinctions. Therefore, these separate "issues" would be counted in the total number of CUSIP numbers reported previously.

no longer the case—the terms of a refunding of securities prior to maturity, for example, might draw distinctions between parts of an issue (distinguishing between securities of a different "purpose,"[7] for example, or by certificate number) that had not previously existed or been deemed material.

This multiplicity of distinctions between securities means that municipal securities generally are not fungible to any significant degree. Unlike corporate debt issues, which are limited in number with each issue having a relatively large "float," municipal debt issues generally have a very small "float," due to the existence of distinctions that render the securities non-fungible. This lack of fungibility means that municipal securities cannot be sold "short," since the short seller would often be unable to cover its sale by a subsequent purchase of the same securities.[8] Consequently, the hedging mechanism afforded to certain professionals in the market for Treasury or corporate debt securities by their ability to sell such securities short is not available in the municipal marketplace.

Participants in the Market

The participants in the markets which have developed to serve these issuers are also a diverse group. As of April 1, 1984, 1,778 securities firms and 317 banks were designated on the Board's records as municipal securities brokers or municipal securities dealers. The *Directory of Municipal Bond Dealers* lists 739 of these organizations; these 739 firms and banks are therefore likely to be fairly active in the municipal market. Approximately 360 of these firms and banks pay the Board fees pursuant to Board rule A-13,[9] which signifies that they manage underwritings with a total principal amount of $1,000,000 or more.[10] The majority of these firms and banks are, again, relatively small. A survey conducted by the Board in 1978 suggested that approximately 80% of all securities firms active in the municipal securities markets have a net worth below $1,500,000, with 50% below $550,000;[11] 75% of the (sixty) dealer banks participating in the survey reported total assets of less than $2 billion, with 50% below $850,000,000.

These firms and banks are also regionally diverse, with strong markets for the securities of local issuers existing in a variety of locations. An indication of the regional nature of the market can be drawn from the filings under Board rule A-13—more than 80% of the reporting underwriters are located outside of the New York metropolitan area, with regional concentrations in the southeast (17% of the total), midwest (16%), and south central (11.5%) states.[12] These regional markets are the focus both for the underwriting of many of the local issues and also for the secondary market for these issues, with the most liquid secondary market for an issuer's securities generally found in the region where the issuer is located. For the smaller issues this is particularly true—often only one local dealer, sometimes a local bank dealer, underwrites and "makes markets" in the issuer's securities. To many of these dealers an underwriting of a local issuer's securities represents a significant financial risk; an ability to hedge that risk would therefore be particularly valuable to these firms and banks.

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[7]The "purpose" of an issue is the designation of the manner in which the proceeds of the issue were originally used (*e.g.*, "school construction" bonds, or "rapid transit improvement" bonds). The term does not, in the sense in which the Board uses it, refer to any distinction in the security or credit of the issue.

[8]The tax exempt nature of the interest income on the securities also imposes possible legal obstacles to the short-selling of securities.

[9]*See* CCH *MSRB Manual*, ¶3061 at 3021/3-3022.

[10]Underwritings with a principal amount of less than $1,000,000 are exempt from the A-13 fee payment requirement.

[11]Data provided to the Board by the National Association of Securities Dealers, Inc., at that time supported these conclusions.

[12]The totals are as follows:

(1) New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont)—9 reporting underwriters (2.5%);
(2) New York metropolitan (New Jersey, New York)—63 reporting underwriters (17.6%);
(3) Mid-Atlantic (Delaware, District of Columbia, Maryland, Pennsylvania, Virginia)—32 reporting underwriters (8.9%);
(4) South (Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee)—61 reporting underwriters (17%);
(5) Midwest (Illinois, Indiana, Kentucky, Michigan, Ohio, West Virginia)—57 reporting underwriters (15.9%);
(6) South central (Arkansas, Kansas, Louisiana, Oklahoma, Missouri)—41 reporting underwriters (11.5%);
(7) North central (Iowa, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin)—30 reporting underwriters (8.4%);
(8) Texas and southwest (Arizona, New Mexico, Texas)—23 reporting underwriters (6.4%);
(9) Mountain (Colorado, Idaho, Montana, Utah, Wyoming)—10 reporting underwriters (2.8%);
(10) West coast (California, Nevada, Oregon, Washington)—30 reporting underwriters (8.4%); and
(11) Puerto Rico—2 reporting underwriters (.5%).

It should also be noted that many of the larger New York underwriters use regional "committing" offices for their underwriting activity; these regional offices are not reflected in the above figures.

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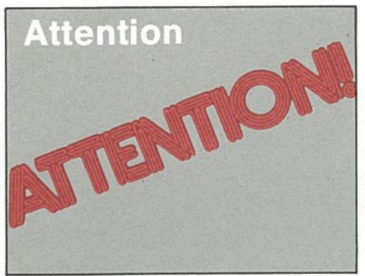

Route To:

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- ☐ Other ______

Letter of Interpretation

Rule G-15—Yield Disclosure on Agency Transactions

I am writing in connection with your previous conversations with Christopher Taylor of the Board's staff concerning the application of the yield disclosure requirements of Board rule G-15 to certain types of transactions in municipal securities. In your conversations you noted that dealers occasionally effect transactions in municipal securities on an "agency" basis. In these transactions the customer's confirmation would typically show as the dollar price of the transaction the price paid by the dealer to the person from whom it acquired the securities; the dealer's remuneration, received in the form of a commission paid by the customer, is typically shown separately, as a charge included in the summing of the total dollar amount due from (or to) the customer in connection with the transaction. You inquired whether, in such a transaction, the yield to the customer disclosed on the confirmation should be derived from the price shown as the dollar price of the transaction or from the total dollar amount of the transaction (*i.e.*, whether the yield should show the effect of the commission charged).

This will confirm Mr. Taylor's advice to you that the yield shown on the confirmation of such a transaction should be derived from the total dollar amount of the transaction, and therefore should show the effect of the commission charged to the customer on the transaction. As the Board has previously stated, the yield disclosure on customer confirmations is intended to provide customers with a means of assessing the merits of alternative investment strategies and the merits of the transaction being confirmed. The disclosure of the yield after giving effect to the commission charged the customer best serves these purposes.—*MSRB interpretation of July 13, 1984, by Donald F. Donahue, Deputy Executive Director.*

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Publications List

Manuals

MSRB Manual
Soft-cover manual (CCH), updated semi-annually or annually, containing the Board rules; text of the Securities and Exchange Act of 1934 and of the Securities Investor Act of 1979; samples of forms; lists of Board members and staff; and new developments.
April 1, 1984 .... $5.00

MSRB Rules
Soft-cover text of MSRB rules and interpretations; reprints the MSRB rules and the forms sections of *MSRB Manual*.
April 1, 1984 .... $2.00

Professional Qualification Handbook
Analysis of requirements for qualification as a municipal securities representative, principal, sales principal, and financial operations principal; rule text; and glossary (1983).
49 pages .... 5 copies per year (No charge)
Each additional copy .. $1.50

Manual on Close-Out Procedures
Discussion of the close-out procedures of rule G-12(h)(i) in question-and-answer format, glossary, and rule text (1981).
70 pages $2.00

Arbitration Procedures: Rules A-16 and G-35
Text of rules (1981).
12 pages .... (No charge)

Arbitration Information
Explanation of arbitration and the procedures for initiating arbitration, fee schedule, and glossary.
12 pages .... (No charge)

How to Proceed With the Arbitration of a Small Claim
Explanation of procedures for filing an arbitration claim under $2,500, text of rules, and submission agreement form.
12 pages .... (No charge)

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