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Calendar

June 15	—	Effective date of G-35 on composition of arbitration panels
June 21	—	Effective date of G-35 on payment or escrow of arbitration awards
September 29	—	Comments due on G-36 on delivery of official statements to the Board
	—	Comments due on G-27 and G-9 on supervisory responsibilities
October 1	—	Effective date of A-13 increase in underwriting assessment fees
January 1	—	Effective date of SEC rule 15c2-12 on underwriter disclosure
	—	Effective date of G-3 on qualifications of FINOPS
	—	G-3 revisions to the representative qualification exam
Pending	—	G-35 changes to Arbitration Code

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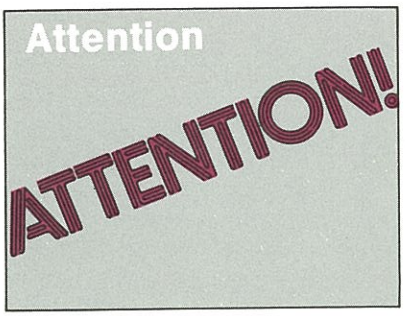

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Guiding Principles for a Central Electronic Repository

The Board has adopted the following principles to guide its efforts in establishing a central electronic repository:

1. The purpose of the repository is to collect, electronically store, and make available official statements and advance refunding documents for municipal securities issues to improve accessibility of information about municipal securities.
2. The repository will be planned and operated in a manner that will provide equal access to documents in the repository to any interested person in a non-discriminatory manner, in a manner that will not confer special or unfair economic benefit to any person, and in a cost-effective manner supported by a combination of Board funds and user fees.
3. The Board will encourage and facilitate the development of information dissemination services by private vendors, but the repository will be planned and operated in a manner to preserve its flexibility to meet additional information needs, beyond dissemination of official statements and advance refunding documents, when there is a clear and continuing failure by private sector information sources to provide information that is essential to the integrity and efficiency of the market.
4. The repository will be planned and operated in a manner to ensure as much flexibility as possible in adjusting to changes in technology of document storage and dissemination and to changes in disclosure practices in the market.

The Board is publishing these guiding principles to keep the municipal securities industry informed of its intentions in this area.

August 8, 1989

Questions about this notice should be directed to Christopher A. Taylor, Executive Director.

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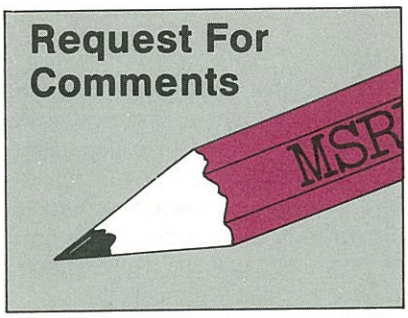

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Delivery of Final Official Statements to the Board: Rules G-36 and G-8

Comments Requested

The Board requests comments on draft rule G-36 which would require underwriters subject to SEC rule 15c2-12 to deliver to the Board or its designee a copy of the final official statement, along with certain refunding documents for issues that are advance refunded, to be placed in a repository. The draft rule would also require underwriters to provide CUSIP numbers for all such issues.

The Board also requests comments on a draft amendment to rule G-8 which would require underwriters to keep certain records regarding compliance with draft rule G-36.

The complexities of municipal securities (*e.g.*, complex extraordinary and other call features, put options and variable and/or convertible interest rates) make it essential that professionals and investors have access to complete and timely descriptive information about municipal securities and municipal securities issuers. Such information generally is available in official statements for new issue municipal securities. The Board has been concerned, however, that the flow of information in the new issue market has not been adequate to ensure that market participants have access to the official statement for a new issue at the time trading begins in the issue. In addition, in the secondary market, it appears that dealers that need descriptive information for issues they are trading usually do not have access to the official statements that contain the information. The Board believes that these information problems can be ameliorated by the creation of a repository of official statements and certain refunding documents.[1]

The Securities and Exchange Commission recently adopted rule 15c2-12, which will go into effect on January 1, 1990.[2] The rule will require that final official statements for most municipal securities issues over $1 million be obtained from the issuer or its agent by the underwriters within seven business days after any final agreement to purchase, offer, or sell the municipal securities in a primary offering.[3] This new requirement ensures market participants will have access to final official statements for all issues covered by the rule earlier in the distribution process. In addition, it will be feasible to create a facility to store all such documents in a central location for the life of the issue. SEC rule 15c2-12 permits the time period within which underwriters must provide final official statements to potential customers on request to be reduced to the extent the official statements are available from a nationally recognized municipal securities information repository.[4]

The Board plans to create a repository that would function much like a public library that stores and indexes the documents and provides copies of the documents to parties requesting them for a fee. The Board is considering adopting a rule that would require underwriters subject to SEC rule 15c2-12 to deliver to the Board or its designee a copy of the final official statement, along with certain refunding documents for issues that are advance refunded, to be placed in the repository. In addition, the draft rule would require underwriters to provide CUSIP numbers for all such issues to permit the information to be indexed by CUSIP number. The Board intends to store the official statements and other written information it receives

Comments on the draft amendments should be submitted no later than September 29, 1989, and may be directed to Diane G. Klinke, Deputy General Counsel. Written comments will be available for public inspection.

[1] *See* December 17, 1987 Letter from James B.G. Hearty, Chairman, MSRB, to David S. Ruder, Chairman, SEC, *MSRB Reports*, Vol. 8, No. 1 (January 1988); and November 28, 1988 Letter from John W. Rowe, Chairman, MSRB, to Jonathan G. Katz, Secretary, SEC, *MSRB Reports*, Vol. 8, No. 5 (December 1988).

[2] *See* Securities Exchange Act Release No. 34-26985 (June 28, 1989).

[3] A "primary offering" is defined in the SEC rule as an offering of municipal securities directly or indirectly by or on behalf of an issuer of such securities and includes certain remarketings. The new SEC rule is reprinted at pp. 9-10. Questions concerning rule 15c2-12 should be directed to the Commission.

[4] A "potential customer" is a defined term in SEC rule 15c2-12 and the requirements for the development of a "nationally recognized municipal securities information repository" are discussed in the SEC's release describing rule 15c2-12.

pursuant to rule G-36 without disseminating it until the repository begins operations. The Board plans to publish a separate notice requesting comment on the operation of the repository in the near future.

Summary and Request for Comments

Draft Rule G-36

Section (a) of draft rule G-36 sets forth definitions of certain terms used in the draft rule. The definitions of "final official statement" and " primary offering" are taken from SEC rule 15c2-12. "Refunding documents" are defined as the documents that set forth the terms and conditions under which an issue of municipal securities is advance refunded, including the refunding escrow trust agreement, or its equivalent, and the notice of defeasance. Comments are requested on the proposed definitions.

Draft rule G-36(b) would require an underwriter subject to SEC rule 15c2-12 to deliver to the Board or its designee within one business day after receipt of the final official statement from the issuer or its designated agent, but no later than eight business days after concluding any final agreement to purchase, offer, or sell the municipal securities in an offering, the following documents and written information: (i) one copy of the final official statement; (ii) if the issue advance refunds an outstanding issue of municipal securities, the refunding documents; and (iii) a completed Form G-36 as prescribed by the Board, including the CUSIP number or numbers for the issue and, when applicable, for the refunded issue.

The timeframe for delivery in the draft rule corresponds with the requirements of SEC rule 15c2-12. The Board anticipates that underwriters will provide the documents and information required in the rule to the Board or its designee by an overnight delivery service. Since the terms of an advance refunding are included in the official statement for the refunding issue, the Board believes that underwriters subject to SEC rule 15c2-12 will have the refunding documents available for delivery to the Board within the timeframe specified in the rule. In addition, since rule G-34 requires underwriters to obtain CUSIP numbers for new issues by the date of sale or award, CUSIP numbers should be available by the required delivery date. As noted previously, the Board may index information in the repository by CUSIP number. The Board has developed a draft form, which is reprinted after the draft rule, to assist underwriters in providing the written information required in the draft rule.

Draft rule G-36 is limited to underwriters subject to rule 15c2-12 (*i.e.*, underwriters of most municipal issues over $1 million). The Board requests comment whether the draft rule should be expanded to require underwriters not subject to rule 15c2-12 (*e.g.*, underwriters of issues less than $1 million) to deliver to the Board the documents and written information required by rule G-36(a), if a final official statement is prepared by or on behalf of the issuer. The Board also requests comment whether final official statements amended or "stickered" during the underwriting period also should be delivered by underwriters to the Board. Information is requested whether refunding documents would be available for delivery to the Board or its designee within the timeframe in the draft rule. The Board also seeks comments whether any additional information should be required on Form G-36.

Draft rule G-36(c) would provide that, if an issue is cancelled after documents are provided to the Board or its designee, the underwriter must notify the Board promptly, in writing, of this fact. Through this provision the Board would ensure that the repository does not collect and disseminate documents for cancelled issues. The Board requests comment whether it should set a time deadline (*e.g.*, one business day) for underwriters to notify the Board after an issue is cancelled.

If a syndicate is formed for the underwriting of the issue, draft rule G-36(d) would require the managing underwriter to take the actions required under draft rule G-36. Finally, draft rule G-36(e) would require that, within 60 days of the effective date of the rule, underwriters deliver the documents and written information referred to in rule G-36(a) for each offering of municipal securities from the effective date of SEC rule 15c2-12 (January 1, 1990) to the effective date of draft rule G-36. Thus, when the repository begins operation, it would include all the official statements prepared in accordance with the SEC's rule. Comments are requested on these provisions of draft rule G-36.

Draft Amendments to Rule G-8

The Board also is considering an amendment to rule G-8, on recordkeeping. The draft amendment would require the underwriter to keep a record of the name, par amount and CUSIP number or numbers of all issues subject to SEC rule 15c2-12, along with: (1) the date the final official statement is received from the issuer or its designated agent, and (2) the date the documents and written information are delivered to the Board or its designee pursuant to draft rule G-36(a). The draft amendment is designed to provide a record of compliance with certain of the requirements of SEC rule 15c2-12 and draft rule G-36. In its release announcing the adoption of rule 15c2-12, the SEC stated that, if the Board determines that specific recordkeeping requirements are necessary to assure compliance with the SEC's rule, the Board has the authority to adopt such rules. The Board requests comment on these recordkeeping requirements. In addition, comments are requested whether the Board should require underwriters to keep records of other aspects of compliance with SEC rule 15c2-12, for example, receipt of the "nearly final" official statement from the issuer, documentation of due diligence, and deliveries of preliminary and final official statements to potential customers upon request.

August 9, 1989

Text of Draft Rule and Amendment

Rule G-36. Delivery of Final Official Statements, Refunding Documents and Form G-36 to Board or its Designee

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

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

(ii) The term "primary offering" shall mean an offering

defined in Securities Exchange Act rule 15c2-12(e)(7).

(iii) The term "refunding documents" shall mean those documents which set forth the terms and conditions under which an issue of municipal securities is advance refunded, including the refunding escrow trust agreement, or its equivalent, and the notice of defeasance.

(b) *Delivery Requirements*. Each broker, dealer or municipal securities dealer subject to Securities Exchange Act rule 15c2-12 shall deliver to the Board or its designee, within one business day after receipt of the final official statement from the issuer or its designated agent, but no later than eight business days after any final agreement to purchase, offer, or sell the municipal securities, the following documents and written information: (i) one copy of the final official statement; (ii) if the issue advance refunds an outstanding issue of municipal securities, the refunding documents; and (iii) a completed Form G-36 prescribed by the Board, including the CUSIP number or numbers for the issue and, in the case of an advance refunding, for the refunded issue.

(c) *Cancellation of Issue*. In the event a broker, dealer or municipal securities dealer provides to the Board or its designee the documents and written information referred to in section (a), above, but the issue is later cancelled, the broker, dealer, or municipal securities dealer shall notify the Board or its designee of this fact promptly in writing.

(d) *Underwriting Syndicate*. In the event a syndicate or similar account has been formed for the underwriting of a primary offering of municipal securities, the managing underwriter shall take the actions required under the provisions of this rule and comply with the recordkeeping requirements of rule G-8(a)(xv).

(e) *Delivery of Final Official Statements, Refunding Documents and Form G-36 for Issues Prior to the Effective Date of Rule G-36.* By [60 days from the effective date of rule G-36], each broker, dealer and municipal securities dealer subject to Securities Exchange Act rule 15c2-12 shall deliver to the Board or its designee the documents and written information referred to in section (a), above, for each primary offering of municipal securities from January 1, 1990 to [the effective date of rule G-36].

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

(a) *Descriptions of Books and Records Required to be Made*

(i) through (xiv) No change.

(xv) *Records Concerning Delivery of Final Official Statements, Refunding Documents and CUSIP Numbers to the Board or its Designee.* A broker, dealer or municipal securities dealer subject to Securities Exchange Act rule 15c2-12 (or, in the event a syndicate or similar account has been formed for the purpose of underwriting the issue, the managing underwriter) shall maintain a record of the name, par amount and CUSIP number or numbers for all primary offerings of municipal securities; the date of receipt from the issuer or its designated agent of the final official statement; and the date of delivery to the Board or its designee of the documents and written information referred to in Rule G-36(a).

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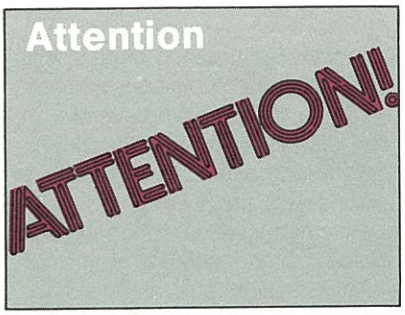

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SEC Rule 15c2-12 on Underwriter Disclosure Adopted

On June 28, 1989, the SEC adopted rule 15c2-12, which will become effective on January 1, 1990. The rule requires underwriters participating in certain offerings of municipal securities of $1 million or more to obtain, review and distribute to investors copies of the issuer's disclosure documents. Under the rule, the underwriter will be required:

(1) to obtain and review a copy of an official statement deemed final by an issuer of the securities, except for the omission of specified information, prior to bidding for, purchasing, offering or selling the securities;
(2) in non-competitively bid offerings, to make available, upon request by a potential customer, the most recent preliminary official statement, if any;
(3) to contract with an issuer of the securities, or its agent, to receive, within seven business days after final agreement to purchase, offer, or sell the securities, sufficient copies of the issuer's final official statement, both to comply with this rule and the Board's rules; and
(4) to provide, for a specified period of time, copies of final official statements to any potential customer upon request.

The rule also contains exemptions for underwriters participating in certain offerings of municipal securities issued in denominations of $100,000 or more that are sold to no more than 35 sophisticated investors, have maturities of nine months or less, or have short-term tender or put features. In addition, the release modifies, in limited respects, a previously published interpretation of the legal obligations of municipal securities underwriters.

In light of the adoption of SEC rule 15c2-12, the Board intends to review its rules, including rule G-32, on disclosures in connection with new issues, to determine if any provisions should be revised to take into account the availability of official statements for issues subject to the SEC's rule. The Board wishes to remind dealers that rule G-32 applies to all new issue municipal securities for which an official statement is prepared by or on behalf of an issuer, whether or not the underwriter is subject to SEC rule 15c2-12.

June 28, 1989

Text of SEC Rule

§240.15c2-12 Municipal securities disclosure.

(a) *General*. As a means reasonably designed to prevent fraudulent, deceptive, or manupilative acts or practices, it shall be unlawful for any broker, dealer, or municipal securities dealer (hereinafter "Participating Underwriter") to act as an underwriter in a primary offering of municipal securities with an aggregate principal amount of $1,000,000 or more (hereinafter "Offering") unless the Participating Underwriter complies with the requirements of this rule or is exempted from the provisions of this rule.

(b) *Requirements*.

(1) Prior to the time the Participating Underwriter bids for, purchases, offers or sells municipal securities in an Offering, the Participating Underwriter shall obtain and review an official statement that an issuer of such securities deems final as of its date, except for the ommission of no more than the following information: the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, any other terms or provisions required by an issuer of such securities to be specified in a competitive bid, ratings, other terms of the securities depending on such matters, and the identity of the underwriter(s).

(2) Except in competitively bid offerings, from the time the Participating Underwriter has reached an understanding with an issuer of municipal securities that it will become a Participating Underwriter in an Offering until a final official statement is available, the Participating Underwriter shall send no later than the next business day, by first class mail or other equally prompt means, to any potential customer,

Any questions concerning SEC rule 15c2-12 should be directed to these Commission staff members: Catherine McGuire, Special Assistant to the Director (202) 272-2790 (prior to the rule's effective date), Robert L. D. Colby, Chief Counsel, or Edward L. Pittman, Assistant Chief Counsel (202) 272-2848, Division of Market Regulation, Mail Stop 5-1, Securities and Exchange Commission, Washington, D.C. 20549.

on request, a single copy of the most recent preliminary official statement, if any.

(3) The Participating Underwriter shall contract with an issuer of municipal securities or its designated agent to receive, within seven business days after the final agreement to purchase, offer, or sell the municipal securities in an Offering and in sufficient time to accompany any confirmation that requests payment from any customer, copies of a final official statement in sufficient quantity to comply with paragraph (b)(4) of this rule and the rules of the Municipal Securities Rulemaking Board.

(4) From the time the final official statement becomes available until the earlier of (i) ninety days from the end of the underwriting period or (ii) the time when the official statement is available to any person from a nationally recognized municipal securities information repository, but in no case less than twenty five days following the end of the underwriting period, the Participating Underwriter in an Offering shall send no later than the next business day, by first class mail or other equally prompt means, to any potential customer, on request, a single copy of the final official statement.

(c) *Exemptions*. This rule shall not apply to a primary offering of municipal securities in authorized denominations of $100,000 or more, if such securities:

(1) Are sold to no more than thirty-five persons each of whom the Participating Underwriter reasonably believes (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and the risks of the prospective investment and (ii) is not purchasing for more than one account or with a view of distributing the securities; or

(2) Have a maturity of nine months or less; or

(3) At the option of the holder thereof may be tendered to an issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by an issuer or its designated agent.

(d) *Transactional Exemptions*. The Commission, upon written request, or upon its own motion, may exempt any Participating Underwriter that is a participant in a transaction or class of transactions from any requirement of this rule, either unconditionally or on specified terms and conditions, if the Commission determines that such an exemption is consistent with the public interest and the protection of investors.

(e) *Definitions*. For the purposes of this rule —

(1) The term "authorized denominations of $100,000 or more" means municipal securities with a principal amount of $100,000 or more and with restrictions that prevent the sale or transfer of such securities in principal amounts of less than $100,000 other than through a primary offering; except that, for municipal securities with an original issue discount of 10 percent or more, the term means municipal securities with a minimum purchase price of $100,000 or more and with restrictions that prevent the sale or transfer of such securities, in principal amounts that are less than the original principal amount at the time of the primary offering, other than through a primary offering.

(2) The term "end of the underwriting period" means the later of such time as (i) the issuer of municipal securities delivers the securiites to the Participating Underwriters or (ii) the Participating Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the securities for sale to the public.

(3) The term "final official statement" means a document or set of documents prepared by an issuer of municipal securities or its representatives setting forth, among other matters, information concerning the issuer(s) of such municipal securities and the proposed issue of securities that is complete as of the date of delivery of the document or set of documents to the Participating Underwriter.

(4) The term "issuer of municipal securities" means the governmental issuer specified in section 3(a)(29) of the Act and the issuer of any separate security, including a separate security as defined in rule 3b-5(a) under the Act.

(5) The term "potential customer" means (i) any person contacted by the Participating Underwriter concerning the purchase of municipal securities that are intended to be offered or have been sold in an Offering, (ii) any person who has expressed an interest to the Participating Underwriter in possibly purchasing such municipal securities, and (iii) any person who has a customer account with the Participating Underwriter.

(6) The term "preliminary official statement" means an official statement prepared by or for an issuer of municipal securities for dissemination to potential customers prior to the availability of the final official statement.

(7) The term "primary offering" means an offering of municipal securities directly or indirectly by or on behalf of an issuer of such securities, including any remarketing of the municipal securities (i) that is accompanied by a change in the authorized denomination of such securities from $100,000 or more to less than $100,000, or (ii) that is accompanied by a change in the period during which such securities may be tendered to an issuer of such securities or its designated agent for redemption or purchase from a period of nine months or less to a period of more than nine months.

(8) The term "underwriter" means any person who has purchased from an issuer of municipal securities with a view to, or offers or sells for an issuer of municipal securities in connection with, the offering of any municipal security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking; except, that such term shall not include a person whose interest is limited to a commission, concession, or allowance from an underwriter, broker, dealer, or municipal securities dealer not in excess of the usual and customary distributors' or sellers' commission, concession, or allowance.

(f) *Transitional Provision*. If on July 28, 1989 a Participating Underwriter was contractually committed to act as underwriter in an Offering of municipal securities originally issued before July 29, 1989, the requirements of paragraphs (b)(3) and (b)(4) shall not apply to the Participating Underwriter in connection with such an Offering.

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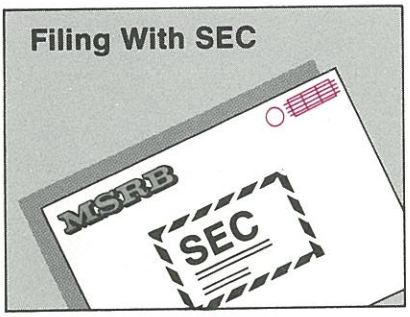

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Increase in Underwriting Assessment Fee: Rule A-13

Amendments Filed

The Board's underwriting assessment fee will increase to $.02 per $1,000 par value for all new issue municipal securities sold on or after October 1, 1989.

On August 25, 1989, the Board filed with the Securities and Exchange Commission amendments to rule A-13 increasing the Board's underwriting assessment fee.[1] The revised fee will take effect October 1, 1989.

The amendments increase the underwriting fee from $.01 to $.02 per $1,000 par value for all new issue municipal securities sold on or after October 1, 1989, having an aggregate par value of $1,000,000 or more and a maturity date of not less than two years from the date of the securities. In light of the Board's declining fund balance and the expected expenses relating to the development of an electronic repository for official statements and refunding documents, the Board determined to increase the underwriting assessment fee at this time.

August 25, 1989

Text of Proposed Amendments*

Rule A-13. Underwriting Assessment for Brokers, Dealers and Municipal Securities Dealers

(a) No change.

(b) The amount of the underwriting fee is:

~~.001% ($.01 per $1,000) of the par value for issues sold on or after July 1, 1987, and~~

~~.002% ($.02 per $1,000) of the par value for issues sold before July 1, 1987)~~

.002% ($.02 per $1,000) of the par value for issues sold on or after October 1, 1989 and

.001% ($.01 per $1,000) of the par value for issues sold before October 1, 1989.

(c) - (d) No change.

Questions about the amendments may be directed to Christopher A. Taylor, Executive Director.

[1] SEC File No. SR-MSRB-89-5. Comments filed with the SEC should refer to the file number.

* Underlining indicates new language; strikethrough indicates deletions.

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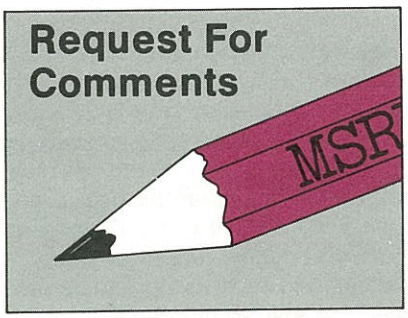

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Supervision Requirements: Rules G-27 and G-9

Comments Requested

The Board proposes amendments that would provide more specific guidance as to the supervisory responsibilities of dealers.

Rule G-27 on supervision requires a dealer to supervise the municipal securities activities of its associated persons and the conduct of its business. It specifies that one or more municipal securities principals must be designated to supervise the dealer and also requires a dealer to have and enforce written supervisory procedures. Rule G-27 is one of the Board's most important rules as it places responsibility for ensuring compliance with Board and other rules directly on a dealer. This provides important customer protections and ensures the continued integrity of the municipal securities market.

Over the past few years, the SEC and other self-regulatory organizations have been scrutinizing the adequacy of supervision of securities dealers and professionals. Both the New York Stock Exchange (NYSE) and the National Association of Securities Dealers, Inc. (NASD) recently adopted significant amendments to their supervisory requirements. The Board, too, has focused on the importance of supervision in ensuring compliance with Board rules. The Board specifically adopted, as one of its goals, the enhancement of ethical standards of municipal securities dealers. Consistent with this goal the Board has published a number of educational notices on its fair practice rules and has sought stricter enforcement of Board rules. The Board has urged the enforcement agencies to look to a dealer's supervisors to ensure that compliance procedures are established and enforced. Moreover, the Board has taken the position that violations of Board rules, particularly those that indicate a lack of effective supervisory controls, also may be violations of rule G-27.

The Board has reviewed the requirements of rule G-27 and is proposing amendments to the rule that provide more specific guidance as to the supervisory responsibilities of municipal securities dealers. If the Board determines to adopt the draft amendments, it also will adopt a clarifying amendment to rule G-9, on retention of records, as it applies to rule G-27. The amendments are described below.

Summary of Draft Amendments and Request for Comments

Revised rule G-27 would require a dealer to establish an effective supervisory system that has three major components: (i) the specific designation of each principal, including his area of supervisory responsibility; (ii) the adoption and maintenance of detailed written supervisory procedures designed to ensure that a dealer's business and the municipal securities activities of its associated persons are in compliance with Board and other applicable rules; and (iii) at least an annual review of its supervisory system and written procedures to ensure that they are adequate and up-to-date and to determine whether the dealer is in compliance with Board and other applicable rules. These requirements are consistent with the practices of many dealers who have established effective supervisory systems and with the supervisory requirements of other self-regulatory organizations.

(a) ***Obligation to supervise***. Section (a) of rule G-27 reiterates a dealer's essential obligation to supervise the conduct of its municipal securities business and the municipal securities activities of its associated persons. The duty of a dealer to supervise its own securities activities is well settled under the federal securities laws and under the shingle theory, a body of case law under the Securities Exchange Act. The Board has not altered section (a) of rule G-27.

(b) ***Designation of principals***. All supervision must be effected through and by a qualified principal. Rule G-27 permits considerable flexibility, subject to certain minimum numerical requirements specified in rule G-3(b), on standards of professional qualification, to delegate supervisory responsibility to one or more principals in a manner that best serves the administrative and other practical concerns of a dealer.

Revised section (b) simply would restate, in a more organized

Comments on the matters discussed in this notice should be submitted no later than September 29, 1989, and may be directed to Diane G. Klinke, Deputy General Counsel. Written comments will be available for inspection.

fashion, which category of principal may discharge various supervisory responsibilities. In general, supervisory responsibility for the municipal securities activities of a dealer must rest with a qualified municipal securities principal. However, rule G-27(b) specifies a number of supervisory responsibilities that also may be performed by municipal securities sales principals, by general securities principals, and by financial and operations principals.[1] In addition, the section provides that a dealer that is not a bank dealer or an introducing broker must appoint at least one financial and operations principal to discharge SEC financial reporting and customer protection requirements and to be principally responsible for the books and records of the dealer; the chief financial officer of such a dealer must be a financial and operations principal.[2] An introducing broker may appoint either a financial and operations principal or a municipal securities principal to supervise its books and records or act as the chief financial officer.

A written record of the name of each designated principal and of his supervisory responsibilities must be maintained for six years as required in rule G-9 and the dealer's records must be updated as changes occur. It should be emphasized that nothing in the amendments alters the longstanding position of the Board that a principal designated as responsible for supervising the municipal activities of a branch office or unit need not be physically located there as long as the supervisor effectively can supervise the associated persons and activities of the branch office or unit from his different location.

(c) ***Written supervisory procedures***. One of the principal provisions of rule G-27 has been the requirement that a dealer establish written supervisory procedures to assure compliance with Board and other applicable rules. This ensures that designated principals are informed about the scope of their duties and permits the dealer to oversee its principals' activities. Section (c) of revised rule G-27 would provide additional guidance as to what matters should be covered in written supervisory procedures. The Board anticipates that supervisory procedures will cover all supervisory activities permitted of principals under rule G-3. In addition, section (c) specifically would require written supervisory procedures to provide for the periodic review of each office in which municipal securities activities occur, including branch offices or units. Among other things, the section anticipates that the written supervisory procedures specifically will address Board rules and how supervision will occur. For example, revised paragraph (c)(iii) of rule G-27 would require the regular and frequent review and approval by a designated principal of customer accounts in which transactions occur. The purpose of this requirement, which is contained in current rule G-27, is to detect and prevent irregularities and abuses. The Board expects dealers to establish procedures that effectively obtain this objective and are capable of compliance. Thus, in determining when an account must be reviewed, a dealer might look to the volume and frequency of trading and the nature of the securities traded. Such guidelines would be appropriate if they are articulated clearly in a dealer's written supervisory procedures.

(d) ***Annual review***. Section (c) of revised rule G-27 would require a dealer to revise and update its supervisory procedures when necessary to respond to changes in Board or other applicable rules, administrative changes at the dealer, and other relevant developments. The intent of the Board is to ensure that a dealer is aware of current regulatory developments and will educate its supervisors and associated persons in all applicable requirements to ensure compliance.

The revised rule also would clarify a dealer's obligation to evaluate its compliance with Board and other applicable rules at least annually. The rule would permit a dealer to develop its own procedures for evaluating compliance. For example, some dealers may require principals to report on compliance issues periodically or to submit written compliance reports summarizing activities under their particular supervision.[3] In addition, a dealer must be satisfied that its designated principals are following their respective written supervisory procedures. This can be accomplished by ensuring that a designated principal keep notes sufficient to permit adequate oversight by the dealer.

* * *

The Board requests comments on revised rule G-27. In particular, the Board seeks comment whether the draft revisions provide sufficient guidance to dealers establishing and maintaining adequate and effective systems for supervision. The Board also seeks comments whether additional supervisory responsibilities should be specified in the rule.

August 16, 1989

Text of Draft Amendments*

G-27. Supervision

(a) *Obligation to supervise.* Each broker, dealer and municipal securities dealer ("dealer") shall supervise the conduct of its municipal securities business and the municipal securities activities of its associated persons to ensure compliance with Board rules and the applicable provisions of the Act and rules thereunder ("applicable rules").

(b) *Designation of principals.*

(i) *General.* Each dealer shall specifically designate one or more associated persons qualified as municipal securities principals, municipal securities sales principals, financial and operations principals in accordance with Board rules, or as general securities principals to be responsible for the supervision of its municipal securities business and the municipal securities activities of its associated persons as

[1] The qualification requirements of municipal securities principals, municipal securities sales principals and financial and operations principals are contained in rule G-3. The qualification requirements of general securities principals are governed by NASD rules.

[2] Of course, a municipal securities principal or or a general securities principal may assist a financial and operations principal in discharging some of these responsibilities.

[3] Certainly, serious violations should be brought to the attention of the dealer immediately to ensure that corrective measures are taken.

* Underlining indicates new language; strikethrough indicates deletion.

required by this rule.

(ii) *Written Record*. A written record of each supervisory designation and of the designated principal's responsibilities under this rule shall be maintained and updated as required under rule G-9.

(iii) *Appropriate principal*. Each dealer shall designate a municipal securities principal as responsible for its supervision under sections (a) and (c) of this rule, except as provided in this section. A non-bank dealer shall, and a non-bank dealer meeting the requirements of Securities Exchange Act rule 15c3-1(a)(2) or (3) or the exemption under rule 15c3-1(b)(3) may, designate a financial and operations principal as responsible for the financial reporting duties specified in rule G-3(a)(ii)(A-E) and with primary responsibility for books and records under section (c)(v) below. In addition, a municipal securities sales principal may be designated as responsible for supervision under sections (c)(ii), (iii) and (vii) of this rule, to the extent the activities pertain to sales to or purchases from a customer; a general securities principal may be designated as responsible for supervision under sections (c)(v) and (vii)(A) of this rule and under rules G-7(b) and G-21(e); and a financial and operations principal may be designated as responsible for supervision under section (c)(vi) of this rule.

(c) *Written supervisory procedures*. Each dealer shall adopt, maintain and enforce written supervisory procedures reasonably designed to ensure that the conduct of its municipal securities business and the municipal securities activities of its associated persons are in compliance as required in section (a) of this rule. Such procedures shall codify the dealer's supervisory system for ensuring compliance and, at a minimum, shall establish procedures

(i) that state how a designated principal shall monitor for compliance by the dealer with all applicable rules and supervise the activities of associated persons specified in rule G-3(a)(iii);

(ii) a designated principal shall follow when a customer complaint concerning the dealer's municipal securities activities is received;

(iii) for the regular and frequent review and approval by a designated principal of customer accounts introduced or carried by the dealer in which transactions in municipal securities are effected; such review shall be designed to ensure that such transactions are in accordance with all applicable rules and to detect and prevent irregularities and abuses;

(iv) for the periodic review by a designated principal of each office which engages in municipal securities activities;

(v) for the maintenance and preservation, by a designated principal, of the books and records required to be maintained and preserved by rules G-8 and G-9 of the Board;

(vi) for the supervision by a designated principal of the processing, clearance, and in the case of a non-bank dealer safekeeping of municipal securities; and

(vii) for the prompt review and written approval by a designated principal of:

(A) the opening of each customer account introduced or carried by the dealer in which transactions in municipal securities may be effected;

(B) each transaction in municipal securities on a daily basis, including each transaction in municipal securities effected with or for a discretionary account introduced or carried by the dealer; and

(C) all correspondence pertaining to the solicitation or execution of transactions in municipal securities.

(d) *Duty to update and review written procedures*. Each dealer shall revise and update its written supervisory procedures as necessary to respond to changes in Board or other applicable rules and as other circumstances require. In addition, each dealer shall review, at least on an annual basis, its supervisory system and written supervisory procedures adopted under section (c) of this rule to determine whether they are adequate and up-to-date and shall ensure that the dealer is in compliance with this rule.

G-9. Preservation of Records

(a) *Records to be Preserved for Six Years*. Every municipal securities broker and municipal securities dealer shall preserve the following records for a period of not less than six years:

(i) - (vi) No change.

(vii) the record, described in rule G-27(b)~~(ii)~~, of each person designated as responsible for the maintenance and preservation of books and records, provided that such record shall be preserved for the period of designation of each person designated and for at least six years following any change in such designation.

(h) - (g) No change.

MSRB REPORTS

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Notice of Approval

Route to:

- [X] Manager, Muni Dept.
- [ ] Underwriting
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- [X] Compliance
- [ ] Training
- [ ] Other _____

Payment or Escrow of Arbitration Awards and Composition of Arbitration Panels: Rule G-35

Amendments Approved

The amendments—

- **require a dealer, within 20 days after receipt of an arbitration award against it, either to pay the award or, if the dealer is considering an appeal of the award, to deposit the amount of the award in an escrow account set up for this purpose by the dealer or to provide to the prevailing party an irrevocable standby letter of credit for the amount of the award; and**
- **permit the Director of Arbitration to assign cases that do not exceed $30,000 to a single arbitrator unless a party requests in its initial filing, or the arbitrator requests, that the Director of Arbitration designate a panel of three arbitrators.**

On June 15 and 21, 1989, the Securities and Exchange Commission approved amendments to rule G-35, the Board's Arbitration Code. The amendment approved on June 15 relates to the composition of certain arbitration panels.[1] The amendment approved on June 21 requires dealers to pay arbitration awards promptly or, if a dealer is considering an appeal of the award, escrow the amount of the award or obtain a letter of credit for the amount of the award for the benefit of the prevailing party.[2] The amendments became effective upon approval by the Commission.

Payment or Escrow of Arbitration Awards

The amendment to rule G-35 concerning payment or escrow of arbitration awards requires a dealer, within 20 days after receipt of an arbitration award against it, either to pay the award or, if the dealer is considering an appeal of the award, to deposit the amount of the award in an escrow account established for this purpose by the dealer or provide to the prevailing party an irrevocable standby letter of credit for the amount of the award.

If the dealer chooses to escrow the amount of the award, the amount of the award would be deposited with the bank in an escrow account pursuant to an escrow agreement subject to instructions consistent with the requirements of the amendment. If an appeal is not filed by the relevant state or federal law deadline, or is filed but later withdrawn by the dealer prior to the entry of a final court order on the appeal, the escrow agreement must provide that the deposited funds would be delivered by the escrow agent to the prevailing party. If a final court order is obtained, the escrow agreement must provide for the delivery of the deposited funds pursuant to the court order.

If a dealer chooses to provide a letter of credit for the amount of the award, the dealer must provide that the amount of the award will be distributed to the prevailing party by the letter of credit issuer under certain circumstances. The letter of credit must provide for the payment upon certification by the prevailing party that the dealer has not paid the amount of the award and (1) an appeal has not been filed by appeal date, or (2) an appeal was filed but later withdrawn by the dealer prior to the entry of a final court order, or (3) a final court order on the appeal has been entered in favor of the prevailing party. Any costs incurred in the escrow account or in the application for an issuance of the letter of credit would be borne by the dealer.

The Board believes that a dealer should pay an award promptly and the 20 day period in the amendment is adequate to obtain the necessary amount of money or make escrow or letter of credit arrangements. An additional benefit of the amendment is that, if the prevailing party does not receive payment of the award or notice of deposit of the funds within the 20 day period, the prevailing party could contact the appropriate enforcement agency. The enforcement agency then could bring an immediate action against the dealer for failing to

Questions about this notice may be directed to Thomas A. Hutton, Arbitration Administrator.

[1] SEC Release No. 34-26937.
[2] SEC Release No. 34-26953.

comply with the rule, rather than waiting for the statutory appeal period to expire.

Composition of Arbitration Panels

The amendment to rule G-35 concerning the composition of arbitration panels revises Section 12 of the rule to permit the Director of Arbitration to assign cases that do not exceed $30,000 to a single arbitrator (either a public arbitrator for customer cases or an industry arbitrator for industry cases). At the request of a party in its initial complaint or answer, or at the request of the designated arbitrator, the Director of Arbitration will be required to designate a panel of three arbitrators. All cases over $30,000 will continue to be decided by a panel of three arbitrators.

June 21, 1989

Text of Amendments*

Rule G-35. Arbitration

Sections 1 through 11 No change.

Section 12. *Designation of Number of Arbitrators and Definitions of Industry and Public Arbitrators*

(a) Controversies Involving Persons Other Than Brokers, Dealers or Municipal Securities Dealers

(1) ~~Except as otherwise provided in this Arbitration Code,~~ In all arbitration matters in which a person other than a broker, dealer or municipal securities dealer is involved and where the matter in controversy exceeds the amount of ~~$10,000~~ $30,000, or where the matter in controversy does not involve or disclose a money claim or the amount of damages cannot be readily ascertained at the time of the commencement of the proceeding, the Director of Arbitration shall appoint an arbitration panel which shall consist of no less than three nor more than five arbitrators, at least a majority of whom shall be public arbitrators as defined in paragraph (c), below, unless such person requests a panel consisting of a majority of industry arbitrators as defined in paragraph (c), below.

(2) Except as otherwise provided in Section 34 of this Arbitration Code, in all arbitration matters in which a person other than a broker, dealer or municipal securities dealer is involved and where the matter in controversy does not exceed the amount of $30,000, the Director of Arbitration shall appoint a single public arbitrator, as defined in paragraph (c), below, to decide the matter in controversy. Upon the request of a party in its initial filing or the arbitrator, the Director of Arbitration shall appoint a panel of three arbitrators which shall decide the matter in a controversy at least a majority of whom shall be public arbitrators unless the person other than a broker, dealer or municipal securities dealer requests a panel consisting of at least a majority of industry arbitrators, as defined in paragraph (c), below.

(b) Intra-Industry Controversies

(1) ~~Except as otherwise provided in this Arbitration Code,~~ In all arbitration matters between or among brokers, dealers, and municipal securities dealers, or persons associated with brokers, dealers, and municipal securities dealers, where the matter in controversy exceeds the amount of $30,000, a panel shall consist of no less than three nor more than five industry arbitrators, as defined in paragraph (c), below, as determined by the Director of Arbitration.

(2) Except as otherwise provided in Section 35 of this Arbitration Code, in all arbitration matters between or among brokers, dealers, and municipal securities dealers, or persons associated with brokers, dealers, and municipal securities dealers, and where the matter in controversy does not exceed the amount of $30,000, the Director of Arbitration shall appoint a single industry arbitrator, as defined in paragraph (c), below, to decide the matter in controversy. Upon the request of a party in its initial filing or the arbitrator, the Director of Arbitration shall appoint a panel of three industry arbitrators.

(c) No change.

Sections 13 through 30 No change.

Section 31. *Awards*

(a) through (d) No change.

(e) Upon receipt by a broker, dealer or municipal securities dealer ("dealer") of a monetary award rendered against it, the dealer, within 20 days, shall:

(1) deliver the amount of the award to the prevailing party (subject to any action required of the prevailing party by the award as a precedent to payment), or

(2)(i) if the dealer is considering an appeal of the award:

(A) deposit the amount of the award with a bank (the "escrow agent") in an escrow account pursuant to an escrow agreement which includes certain provisions described below, or

(B) provide to the prevailing party an irrevocable standby letter of credit ("letter of credit") for the amount of the award setting forth the terms and conditions for payment described below.

(ii) Immediately upon deposit by the dealer of the amount of the award in an escrow account, the dealer must notify the prevailing party in writing of the deposit of the arbitration award, the name and address of the escrow agent, and the final date an appeal may be filed according to relevant state or federal law ("appeal date"). The escrow agreement must provide that, if an appeal is not filed by the appeal date, or filed but later withdrawn by the dealer prior to the entry of a final court order, the escrow agent will deliver the amount of the award to the prevailing party within two business days after the appeal date or the withdrawal date. If an appeal is filed, the amount of the award shall be held by the escrow agent until the entry of a final court order on the appeal. The escrow agreement must provide that, within 10 business days of the entry of the final

* Underlining indicates new language; strikethrough indicates deletions. Other language recently was revised in SEC File No. SR-MSRB-88-5. *See MSRB Reports*, Vol. 8, No. 5 (December 1988) at 15-21.

court order, the escrow agent will deliver the amount of the award in accordance with the court's order.

(iii) If a letter of credit is provided, it must provide that the amount of the award will be disbursed to the prevailing party by the letter of credit issuer upon certification by the prevailing party that the dealer has not paid the amount of the award and:

(A) an appeal has not been filed by appeal date, or

(B) an appeal has been filed but later withdrawn by the dealer prior to entry of a final court order, or

(C) a final court order on the appeal has been entered in favor of the prevailing party.

(iv) Any costs incurred in this escrow account or in the application for and issuance of the letter of credit shall be borne by the dealer.

Sections 32 through 36 No change.

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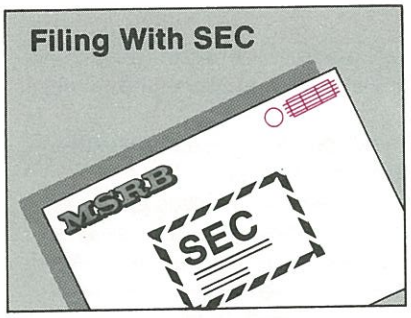

Route to:

- [X] Manager, Muni Dept.
- [ ] Underwriting
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Qualifications of Financial and Operations Principals: Rule G-3

Amendments Filed

The draft amendments will eliminate the Board's FINOP examination and require all persons wishing to become municipal securities FINOPs to do so by qualifying with the NASD as a FINOP.

On August 25, 1989, the Board filed with the Securities and Exchange Commission amendments to rule G-3, on professional qualifications, to eliminate the Board's Financial and Operations Principal (FINOP) examination.[1] The amendments will take effect on January 1, 1990.

Rule G-3 requires securities firms that engage in municipal securities transactions to have at least one associated person qualified as a FINOP.[2] A FINOP supervises the financial reporting and net capital compliance required by SEC rules and the processing, clearance, and safekeeping of municipal securities by the securities firm. Under Board rule G-3(d), an individual may qualify as a FINOP by passing either the Board's Financial and Operations Principal Qualification Examination (Test Series 54) or by being qualified as a FINOP by the National Association of Securities Dealers (NASD). The NASD qualifies FINOPs through its FINOP Examination (Test Series 27).[3] Over the past five years, use of the Board's FINOP examination has been negligible. Therefore, the Board determined to adopt an amendment to rule G-3 which eliminates the Board's FINOP examination and requires all persons wishing to become municipal securities FINOPs to do so by qualifying with the NASD as a FINOP.

The amendments also include certain technical changes to rule G-3.

August 25, 1989

Text of Amendments*

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

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

(i) No change.

(ii) The term "financial and operations principal" means a natural person associated with a broker, dealer ~~municipal securities broker~~ or municipal securities dealer (other than a bank dealer or a broker, dealer or municipal securities dealer meeting the requirements of paragraph (a)(2) or (3) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof), whose duties include:

(A) through (G) No change.

(iii) and (iv) No change.

(b) *Numerical Requirements*.

(i) No change.

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

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

[1] SEC File No. SR-MSRB-89-6. Comments filed with the Commission should refer to the file number.

[2] The FINOP qualification category does not apply to individuals associated with bank dealers because the SEC's net capital requirements do not apply to bank dealers. The individual with policy-making authority for the processing and clearance of municipal securities for a bank dealer is required to qualify as a municipal securities principal. In addition, introducing brokers are not required to have an associated person qualified as a FINOP because they have limited contact with customer funds and securities and are exempt from most of the SEC's net capital requirements.

[3] *See MSRB Reports*, Vol. 9, No. 1 (March 1989) p.11 for a more complete description of these examinations.

* Underlining indicates new language; stirkethrough indicate deletions.

~~ments of paragraphs (a)(2) or (3) of rule 15c3-1 under the Act or exempted from the requirements of rule 15c3-1 in accordance with paragraph (b)(3) thereof~~.

(c) No change.

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

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

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

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

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

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

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

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

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

(e) through (i) No change.

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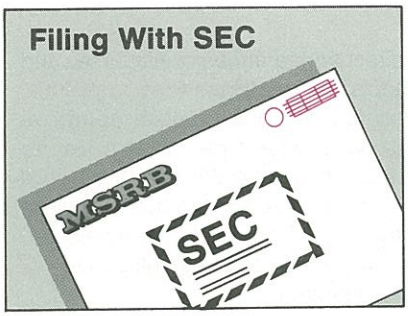

Route to:

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Arbitration Changes: Rule G-35

Amendments Filed

The amendments would revise amendments that are awaiting Commission approval regarding, among other things, a sunset period for the qualification of current public arbitrators and the publication of arbitration awards involving public customers.

On June 12, 1989, the Board filed with the Securities and Exchange Commission (Commission) amendments to rule G-35, the Board's Arbitration Code. The proposed amendments revise amendments that are awaiting Commission approval regarding, among other things, a sunset period for the qualification of current public arbitrators and the publication of arbitration awards involving public customers.[1] The proposed amendments will become effective two months following the date of approval by the Commission.[2]

Sunset for Current Public Arbitrators

In its September 10, 1987 letter to the Board regarding suggested changes to rule G-35, the Commission stated that:

> Changing criteria for the selection of public arbitrators will decrease somewhat the current public arbitrator pool. An expanded network of contacts may have to be established to locate and select arbitrators who meet the standards we recommend for public arbitrators. Accordingly, it would be appropriate for [self-regulatory organizations] to permit persons currently serving as public arbitrators who would not qualify as public arbitrators under the new criteria to continue to serve for up to three years, so long as the arbitrators' affiliations are disclosed to the parties, and . . . are grounds for challenge for cause. This should avoid scheduling difficulties for the arbitration departments.

Pursuant to this suggestion, Section 8(c)(iii) of the proposed amendments would allow current public arbitrators who would not qualify as public arbitrators under the new criteria to continue to act as public arbitrators until September 10, 1991. The proposed amendments also would grant public customers a guaranteed challenge for cause for such arbitrators.

Arbitration Awards

Pursuant to the suggestion of the Commission staff, the proposed amendments to Section 31, on awards, provide that, in addition to information regarding the issues in controversy and the relief awarded, awards also would include: (1) the dates the claim was filed and the award rendered; (2) the number and dates of hearing sessions, and (3) the location of the hearings. In addition, the Board has included in the proposed amendments its publication policy for awards involving public customers. Such awards would be made available for public inspection at the Board's offices except for: (1) the names of parties who are public customers unless the customer agrees to the disclosure of his identity; and (2) the names of the arbitrators. If a party wishes to review prior awards rendered by the arbitrators assigned to the party's current case, such awards will be made available to the party if the party requests such awards within three business days of notification of the names of the arbitrators. The Board believes that its publication policy will ensure that customers have access to information they deem relevant concerning prior arbitrations.

Other, more technical changes are included in the text of the proposed amendments.

June 12, 1989

Text of Proposed Amendments*

Rule G-35. Arbitration

Sections 1 through 7 No change.

Section 8. *Composition and Appointment of Panels*

(a) and (b) No change.

(c) Objections

(i) and (ii) No change.

(iii) Until September 10, 1991, each party who is a person other than a broker, dealer, municipal securi-

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

[1] SEC File No. SR-MSRB-88-5, Amendment No. 2. Comments filed with the Commission should refer to the file number. *See MSRB Reports*, Vol. 8, No. 5 (December 1988) and *MSRB Reports*, Vol. 9, No. 1 (March 1989) for a description of the pending amendments.

[2] Certain proposed amendments regarding predispute arbitration agreements will become effective on September 13, 1989 to coincide with the effective date of similar rules adopted by other self-regulatory organizations.

* Underlining indicates new language; strikethrough indicates deletions.

ties dealer, government securities broker, or government securities dealer, shall be granted a challenge for cause to a public arbitrator who served as a public arbitrator prior to [date of approval of SR-MSRB-88-5] but would not be able to serve as a public arbitrator pursuant to the definitions of industry and public arbitrators in Section 12(c). After September 10, 1991, these arbitrators will be reclassified as industry arbitrators.

Sections 9 through 21 No change.

Section 22. *Discovery*

(a) No change.

(b) *Document Production and Information Exchange*

(1) through (3) No change.

(4) Upon the written request of a party whose information request is unsatisfied, the matter ~~may~~ will be referred by the Director of Arbitration~~, with the consent of a majority of the arbitration panel,~~ to the arbitrators or to a selected arbitrator under paragraph (e) of this section for resolution at least 10 days prior to any hearing on the substantive issues.

(c) and (d) No change.

(e) *Decisions by Selected Arbitrator*

With the consent of a majority of the panel of arbitrators, the Director of Arbitration may appoint a single member of the Arbitration Panel to decide all unresolved issues referred to under this section and Section 23. In matters involving public customers, such single arbitrator shall be a public arbitrator except the arbitrator may be either public or industry when the public customer has requested a panel consisting of a majority of industry arbitrators. Such arbitrator shall be authorized to act on behalf of the panel to issue subpoenas, direct appearances of witnesses and production of documents, set deadlines for compliance, and issue any other decision which will expedite the arbitration proceedings or is necessary to permit any party to develop fully its case. Decisions under this paragraph shall be made upon the papers submitted by the parties, unless the arbitrator calls a hearing. The arbitrator may elect to refer any issue under this paragraph to the full panel.

Sections 23 through 30 No change.

Section 31 *Awards*

(a) through (d) No change.

(e) The award shall contain: (1) the names of the parties; (2) a summary by the arbitrators of the issues in controversy, the damages and/or other relief requested, the damages and/or other relief awarded, and a statement of any other issues resolved; (3) the names of the arbitrators; (4) the dates the claim was filed and the award was rendered; (5) the number and dates of hearing sessions, and the location of the hearing(s), and (6) the signatures of those arbitrators concurring in the award.

(f) Awards involving public customers shall be made ~~publicly~~ available ~~in accordance with the policies of the Board~~ for public inspection at the Boards offices except for: (1) the names of parties who are public customers unless the customer agrees to the disclosure of his identity; and (2) the names of the arbitrators. If a party to an arbitration involving a public customer wishes to review prior awards rendered by the arbitrators assigned to the party's current case, such awards will be made available to the party if the party requests such awards within three business days of notification of the names of the arbitrators.

Sections 32 through 36 No change.

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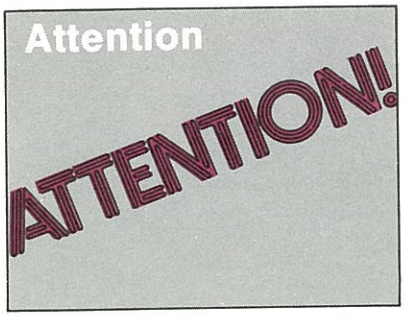

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Letter to SEC on Proposed Rule 15c2-12

June 1, 1989

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Proposed Rule 15c2-12, File S7-20-88

Dear Mr. Katz:

The Board has reviewed the comment letters filed with respect to proposed rule 15c2-12 and the need for a central repository for official statements and refunding documents. The Board would like to amplify its position regarding the repository as stated in its comment letter dated November 28, 1988. The Board is prepared to establish and manage a central repository for official statements and other refunding documents if rule 15c2-12 is adopted by the Commission and if the threshold for application of the rule is amended to apply to underwriters of issues of municipal securities of at least $1 million par value. The repository would be funded by a combination of Board funds and user fees.

In addition, the Board wishes to clarify that it intends the repository to function much like a public library that stores and keeps an index of its documents. The Board would permit any interested person to access documents stored in the repository. The Board, however, has no plans to develop summary information or other products based on documents stored in the repository but it hopes that the repository will stimulate the development of information products by private vendors.

The Board appreciates this opportunity to expand upon its earlier comment letter on proposed rule 15c2-12. If you have any questions about the Board's position on proposed rule 15c2-12 or the need for a central repository for official statements and other documents, please contact Angela Desmond, General Counsel to the Board.

Sincerely,

John W. Rowe
Chairman

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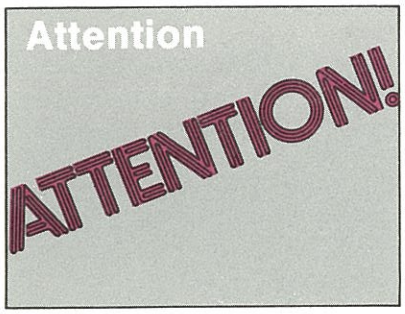

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Letter to ABA on Trustee Disclosure

The following is a letter the Board recently sent to the American Bankers Association regarding trustee disclosure practices for municipal securities. The Board is concerned about complaints it has received regarding inadequate disclosures on the status of municipal securities issues, particularly with respect to technical defaults. It urged the ABA to propose guidelines for trustees in this area.

* * *

August 25, 1989

Mr. Edward McCartney
Chairman, Fiduciary Division
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, DC 20036

Re: Trustee Disclosure Practices for Municipal Securities

Dear Mr. McCartney:

Over the past year, the Board has received numerous complaints about disclosure practices of certain trustees for municipal securities. The complaints typically pertain to inadequate disclosures about the status of an issue and about events of default involving so-called "structured issues" which depend on revenues produced by particular assets. As you know, disclosure practices of trustees for these issues are not covered by the rules of any regulatory organization and often are not adequately addressed in trust indentures. The current lack of uniform trustee disclosure practices has engendered considerable trading and market inefficiencies and is undermining confidence of dealers and investors in the fairness of the municipal securities market.

During the American Bankers Association's recent National Corporate Trust Workshop, concerns about trustee disclosure practices were raised by a number of panelists, including the Board's General Counsel. There appeared to be considerable consensus that voluntary or, if that proves inadequate, statutory, trustee disclosure guidelines may be needed. Our Board understands that your Division, directly or through the Corporate Trust Committee, will be considering whether this issue will be given priority consideration. The Board strongly urges the ABA to do so. It believes that it is appropriate for your Division, which represents trustees and has considerable expertise in this area, to take the lead in proposing trustee guidelines that address default and pre-default disclosure regarding municipal securities.

The Board wishes to emphasize its belief that seeking improvements in this area must be an immediate priority so that the current confusion and disputes arising in our trading markets from inadequate disclosure practices can be ameliorated. The Board offers its support as appropriate in this important endeavor.

Sincerely,

John W. Rowe
Chairman

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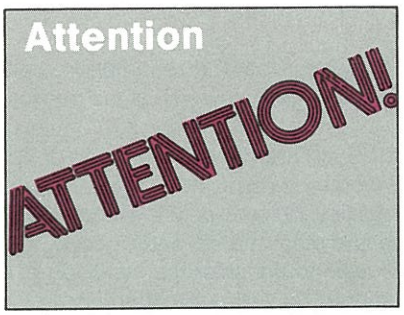

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Letter to NFMA on Its Draft *Disclosure Guidelines*

June 27, 1989

Susan C. Heide
Vice Chairperson
Disclosure Committee, National
Federation of Municipal Analysts
American Express Company—48th Floor
World Financial Center
New York, New York 10285-4815

Re: Draft *Disclosure Guidelines* Proposed by National Federation of Municipal Analysts

Dear Ms. Heide:

The Municipal Securities Rulemaking Board is pleased to comment on the draft *Disclosure Guidelines* released by the National Federation of Municipal Analysts. In recent years, the Board has become increasingly concerned about the adequacy and availability of information about municipal securities issues. Improving the content and dissemination of issuer disclosures will require the cooperation and participation of a wide range of industry professionals. The perspective of municipal securities analysts, as reflected in the draft *Guidelines*, is critical to this process. The Board strongly supports the Federation's efforts to identify information that issuers must disclose for effective credit analysis and believes that the draft *Guidelines* offer a clear, succinct and comprehensive statement of those information needs.

Informational Guidelines

The major component of the draft *Guidelines* is an outline of the information needed for the credit analysis of seventeen types of municipal securities issues. The Board believes that this outline will greatly assist persons preparing disclosure documents. The Board suggests that the *Guidelines* recommend that all issuer disclosure documents and notices provided after the date of sale, in both the primary and secondary market, include the CUSIP number or numbers assigned to the issue. CUSIP numbers now are used almost universally in the industry to identify issues. The placement of CUSIP numbers on disclosure documents will ensure that proper identification can be made quickly and accurately by those persons reviewing disclosure documents.

In addition, the Board strongly endorses the Federation's decision to identify secondary market information needs in its outline. The proper functioning of a secondary market requires that issuers provide or make available to the market continuing public disclosure about their issues. Particularly with respect to "structured" issues, information on the status of the issue, *e.g.*, a "technical" default or a breach of a covenant in a trust indenture, often is important and can be material to investors or dealers considering transactions in the issue. Serious trading problems, broken trades and arbitrations inevitably result when this information is provided only to select parties or is not made public in a timely manner. The Board believes that it is no longer practical or realistic for issuers or trustees to attempt to provide this information exclusively to bondholders.

Issuers and trustees may need additional guidance concerning the content, timing and dissemination of continuing disclosures about municipal securities issues and the Board believes that the formulation of voluntary standards for continuing disclosure is an important and attainable goal. The sample trustee report in the draft *Guidelines* is an excellent example of how an industry-wide committee can work together on a voluntary basis to improve and standardize a disclosure format. The Board encourages the Federation to work closely with industry groups representing issuers and trustees to arrive at comprehensive voluntary guidelines on the content, timing and dissemination of continuing information for all types of municipal securities issues.

Procedural Issues

Although the draft *Guidelines* primarily address the content of information needed for municipal securities credit analysis, several procedural issues regarding disclosure are addressed in the "Procedural Disclosure Issues" section. With respect to the Federation's recommendation for a central repository for official statements and continuing disclosure information, the Federation is aware that the Board has proposed the creation of an electronic library for official statements and certain refunding documents. The Board has informed the Securities and Exchange Commission that it is willing to fund and manage the library under certain circumstances and will consider further

action on the proposal after the Commission takes action on proposed rule 15c2-12. The Board welcomes the Federation's views on the repository, including its potential for providing access to continuing disclosure documents.

The Procedural Disclosure Issues section also includes a recommendation that trustees provide follow-up call notices to investors when securities are not redeemed. The Board applauds this idea and believes that providing follow-up call notices sixty days after the date of the initial call notice would help to reduce the continuing problems experienced by individual bondholders and other market participants in the area of call processing. The Board, however, also believes that a more comprehensive standard for call notification is needed. In addition to the follow-up call notices, the standard would include procedures for: publishing complete call notices for all bearer issues in financial periodicals with national circulations; minimum requirements for call notices including publication date and the CUSIP number or numbers of the issue called; providing redemption notices to depositories and to call notification service bureaus in a secure fashion (*e.g.*, express or overnight mail) and providing notices to other holders by first class mail;[1] publishing call notices (and second notices of call in advance refundings) thirty days prior to redemption; and, sending call notices to depositories in advance of the publication date.

The Board believes that such a comprehensive set of call notice procedures, if followed by issuers and trustees,[2] would address most of the call notification problems that continue to affect individual investors and other market participants. The Federation therefore may wish to consider the inclusion of a more comprehensive standard for call notification within the draft *Guidelines*.[3]

* * *

The Board appreciates the opportunity to comment on the draft *Guidelines*. Any questions on the Board's position may be directed to Angela Desmond, General Counsel of the Board.

Sincerely,

John W. Rowe
Chairman

[1] The Board notes that the draft *Guidelines* suggest use of registered mail/return receipt requested mail for call notices to depositories and holders in excess of $1 million.

[2] While the Board strongly supports voluntary efforts to improve call processing, it is concerned that voluntary guidelines ultimately may not solve call notification problems without increased accountability on the part of issuers and trustees. Consequently, the Board has suggested to the Securities and Exchange Commission that additional regulation or legislation may be needed in this area.

[3] Recently, a committee of the American National Standards Institute (ANSI) released for comment a proposed ANSI standard, which is a natural and comprehensive extension of the call notification procedures recommended by the SEC and industry groups in 1986. The proposal includes most of the procedures noted above and additional detailed guidelines for call processing. The Federation may wish to review the proposed ANSI standard in determining the final call notification procedures to be included in the *Guidelines*.

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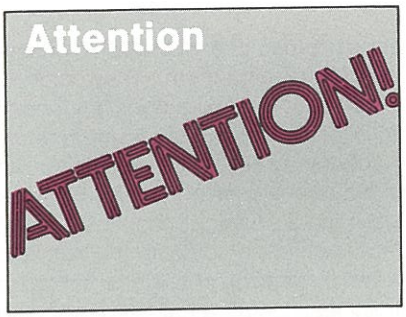

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Letter to ANSI on Its Draft Standards for Call Notification

May 30, 1989

Mr. Frank Petrillo
Chairman
Committee X9D Working Group 11
American National Standards Institute
55 Water Street — 49th Floor
New York, New York 10041

Re: Draft ANSI Standards for Call Notification

Dear Mr. Petrillo:

The Municipal Securities Rulemaking Board is pleased to comment on the draft call notification standards prepared by the ANSI X9D Committee Working Group 11.

Adequate call notification for municipal securities has been and continues to be a primary concern of the Board. As you may know, the Board endorsed the voluntary call notification standards recommended by the Securities and Exchange Commission and other industry groups in 1986.[1] Since the publication of the voluntary standards, call notification has improved to some extent, but compliance with the standards has been uneven. In some cases, observance of the standards may be impeded by the terms of existing trust indentures or state law. The Board continues to receive a steady stream of complaints from investors and other market participants relating to early redemptions. For these reasons, the Board has suggested to the SEC that voluntary efforts are insufficient and that further regulation of the call notification process may be needed.[2]

Although the Board understands that the draft standards proposed by the Working Group would be voluntary, they would reinforce the SEC standards and improve upon the SEC standards in some respects. The Board views as especially important the Working Group's proposal for follow-up call notices to be sent no later than 60 days after the initial call notice when securities have not been redeemed as scheduled. Many of the complaints received by the Board are from individual investors who have sustained financial losses because they have failed to receive or have failed to act on initial call notices and have held called bonds for long periods of time. Because follow-up call notification is extremely important for securities that do not pay periodic interest, the Board also strongly supports the language of subsection III(C) of the standards, which provides for a second follow-up notice on these issues. To ensure that the second follow-up notice is given, the Board suggests that the language of subsection III(C) be incorporated directly into the proposed trust indenture language referenced in section IV.

With respect to the five survey questions accompanying the draft standards, the Board offers the following comments:

Question (1) asks whether envelopes containing call notices should contain the legend "Important: Call Notice Enclosed." The Board believes that call notice envelopes should contain this legend.

Section II of the draft standards states that certain notices should be sent to "nationally-recognized service bureaus."[3] Question (2) asks whether the standards should list specific service bureaus to receive this information. While it may not be appropriate to name service bureaus to receive information on an exclusive basis, it would be helpful if the standards included examples of nationally-recognized service bureaus. If examples are given, however, the standards should make clear that the examples are not exclusive and that other organizations may qualify as nationally-recognized service bureaus.

Question (3) asks whether follow-up call notices should be sent within 60 days or 90 days after the first notice. The Board believes 60 days generally is sufficient time for redemption

Further information on the draft ANSI standards for call notification can be obtained from Frank Petrillo, Chariman of Working Group 11 of the X9D Committee, American National Standards Institute, at the address noted above. Mr. Petrillo's telephone number is (212) 898-3270.

[1] Securities Exchange Act Release No. 23856 (December 3, 1986), reprinted in *MSRB Reports*, Vol. 7, No. 1 (January 1987), at 11-15.

[2] See the Board's 1987 Report to the Securities and Exchange Commission, *Automated Clearance and Settlement in the Municipal Securities Market*, which discusses call notification problems on pages 20-21.

[3] Section III of the standards mentions "financial service bureaus." For consistency, this term may need to be changed to "nationally-recognized service bureaus."

arrangements to be made and that, if the redemption agent has not received called securities by this time, a second notice is warranted.

Question (4) asks whether additional information should be added to the standard call notice. The Board believes that the information contained in the standard notice is appropriate. It suggests, however, that the name and telephone number of a person who could be contacted about the notice would be a beneficial addition.

Question (5) asks for suggestions on modifications to the proposed call notification procedures. Many of the call notification problems which continue to come to the Board's attention involve bearer issues. Although no new bearer bonds now are being issued, large numbers of bearer certificates remain outstanding, and many of these certificates are callable. The Board suggests that the standards provide for publication of all call notices for bearer issues in at least one financial publication with a national circulation. The Board recommends that the standards also provide for call notices for bearer issues to be mailed to all holders who supply their names and addresses for this purpose.[4]

The Board is concerned that problems would be caused by the "abbreviated call notice" described in subsection II(E) of the proposed standards. It appears that abbreviated notices would give no facts about the terms of redemptions and could engender confusion among investors reading them. They certainly would cause redemption agents to be deluged with telephone calls, making it more difficult for investors to obtain information from the agent when it actually is needed. In addition, an abbreviated notice would not qualify as a "notice of call" under Board rules and could cause serious trading problems if it were published prior to the official publication date for the notice of call.[5] The Board believes that publication of call information for bearer issues is so important that complete call notices should be published without exception in financial publications with national circulations.

* * *

The Board appreciates the opportunity to comment on the draft call notice standards. If members of the Working Group have questions on this letter or the applicability of Board rules, please contact Hal Johnson of the Board's staff.

Sincerely,

John W. Rowe
Chairman

[4] This suggestion was included in the 1986 Commission Release which introduced the recommended call standards.
[5] The Working Group may be interested in reviewing the attached interpretive notice by the Board, which defines "publication date" for purposes of Board rules.

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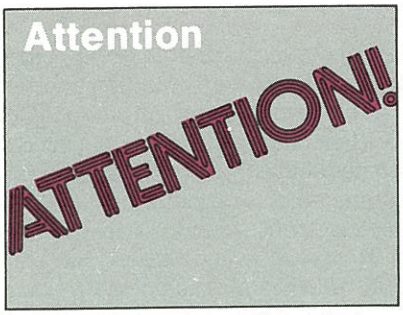

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Letters of Interpretation

Rules G-12 and G-15. Confirmation Requirements for Partially Refunded Securities

This will respond to your letter of May 16, 1989. The Board reviewed your letter at its August 1989 meeting and authorized this response.

You ask what is the correct method of computing price from yield on certain types of "partially prerefunded" issues having a mandatory sinking fund redemption. The escrow agreement for these issues provides for a stated portion of the issue to be redeemed at a premium price on an optional, "in-whole," call date for the issue. The remainder of the issue is subject to a sinking fund redemption at par.[1] Unlike some issues that are prerefunded by certificate number, the certificates that will be called at a premium price on the optional call date are not identified and published in advance. Instead, they are selected by lottery 30 to 60 days before the redemption date for the premium call. Prior to this time, it is not known which certificates will be called at a premium price on the optional call date. In the particular issues you have described, the operation of the sinking fund redemption will retire the entire issue prior to the stated maturity date for the issue.

As you know, rules G-12(c) and G-15(a) govern inter-dealer and customer confirmations, respectively. Rules G-12(c)(v)(I) and G-15(a)(i)(I) require the dollar price computed from yield and shown on the confirmation to be computed to the lower of call date or maturity. For purposes of computing price to call, only "in-whole" calls, of the type which may be exercised in the event of a refunding, are used.[2] Accordingly, the Board previously has concluded that the sinking fund redemption in the type of issue you have described should be ignored and the dollar price should be calculated to the lowest of the "in-whole" call date for the issue (*i.e.*, the redemption date of the prerefunding) or maturity. In addition, the stated maturity date must be used for the calculation of price to maturity rather than any "effective" maturity which results from the operation of the sinking fund redemption. Identical rules apply when calculating yield from dollar price. Of course, the parties to a transaction may agree to calculate price or yield to a specific date, *e.g.*, a date which takes into account a sinking fund redemption. If this is done, it should be noted on the confirmation.[3]

In our telephone conversations, you also asked what is the appropriate securities description for securities that are advance refunded in this manner. Rules G-12(c)(v)(E) and G-15(a)(i)(E) require that confirmations of securities that are "prerefunded" include a notation of this fact along with the date of "maturity" that has been fixed by the advance refunding and the redemption price. The rules also state that securities that are redeemable prior to maturity must be described as "callable."[4] In addition, rules G-12(c)(vi)(I) and G-15(a)(iii)(J) state that confirmations must include information not specifically required by the rules if the information is necessary to ensure that the parties agree to the details of the transaction. Since, in this case, only a portion of the issue will be chosen by lot and redeemed at a premium price under the prerefunding, this fact must be noted on the confirmation. As an example, the issue could be described as "partially prerefunded to [redemption date] at [premium price] to be chosen by lot — callable." The notation of this fact must be included within the securities description shown on the front of the confirmation.

MSRB Interpretation of August 15, 1989, by Harold L. Johnson, Assistant General Counsel.

Rules G-12 and G-15. Calculation of Price and Yield on Continuously Callable Securities

This will respond to your letter of May 30, 1989, relating to the calculation of price and yield in transactions involving municipal securities which can be called by the issuer at any time after the first optional "in-whole" call date. The Board reviewed your letter at its August 1989 meeting and has authorized this response.

Rules G-12(c) and G-15(a) govern inter-dealer and customer confirmations, respectively. For transactions executed on a yield basis, rules G-12(c)(v)(I) and G-15(a)(v)(I) require the dollar price computed from yield and shown on the confirmation to be computed to the lower of call or maturity. The rules also require the call date and price to be shown on the confirma-

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[1] In some issues, a sinking fund redemption operates prior to the optional call date, while, in others, the sinking fund redemption does not begin until on or after that date.

[2] *See* Notice of December 10, 1980, Concerning Pricing to Call, *MSRB Manual*, paragraph 3571, at 4605-4606.

[3] These rules on pricing partially prerefunded securities with sinking funds are set forth in MSRB Interpretation of May 15, 1986, *MSRB Manual* (CCH), paragraph 3571.26, at 4757.

[4] The Board has published an interpretive notice providing specific guidance on the confirmation of advanced refunded securities that are callable pursuant to an optional call. *See* Application of Rules G-12(c) and G-15(a) on Confirmation Disclosure of Escrowed to Maturity Securities, *MSRB Manual*, paragraph 3581, at page 4862.

tion when securities are priced to a call date.

In computing price to call, only "in-whole" calls, of the type which may be exercised in the event of a refunding, should be used.[1] The "in-whole" call producing the lowest price must be used when computing price to call. If there is a series of "in-whole" call dates with declining premiums, a calculation to the first premium call date generally will produce the lowest price to call. However, in certain circumstances involving premiums which decline steeply over a short time, an "intermediate" call date — a date on which a lower premium or par call becomes operative — may produce the lowest price. Dealers must calculate prices to intermediate call dates when this is the case.[2] Identical rules govern the computation and display of yield to call and yield to maturity, as required on customer confirmations under rule G-15(a).

The issues that you describe are callable at declining premiums, in part or in whole, at any time after the first optional call date. There is no restriction on the issuer in exercising a call after this date except for the requirement to give 30 to 60 days notice of the redemption. Since this "continuous" call provision is an "in-whole" call of the type which may be used for a refunding, it must be considered when calculating price or yield.

The procedure for calculating price to call for these issues is the same as for other securities with declining premium calls. Dealers must take the lowest price possible from the operation of an "in-whole" call feature, compare it to the price calculated to maturity and use the lower of the two figures on the confirmation. For settlement dates prior to the first "in-whole" call, it generally should be sufficient to check the first and intermediate call dates (including the par call), determine which produces the lowest price, and compare that price to the price calculated to maturity. For settlement dates occuring after the first "in-whole" call date, it must be assumed that a notice of call could be published on the day after trade date, which would result in the redemption of the issue 31 days after trade date.[3] The price calculated to this possible redemption date should be compared to prices calculated to subsequent intermediate call dates and the lowest of these prices used as the price to call. The price computed to call then can be compared to the price computed to maturity and the lower of the two included on the confirmation. If a price to call is used, the date and redemption price of the call must be stated. Identical procedures are used for computing yield from price for display on customer confirmations under rule G-15(a).

You also have asked for the Board's interpretation of two official statements which you believe have a continuous call feature and ask whether securities with continuous call features typically are called between the normal coupon dates. The Board's rulemaking authority does not extend to the interpretation of official statements and the Board does not collect information on issuer practices in calling securities. Therefore, the Board cannot assist you with these inquiries.

MSRB Interpretation of August 15, 1989, by Harold L. Johnson, Assistant General Counsel.

[1] The parties to a transaction may agree at the time of trade to price securities to a date other than an "in-whole" call date or maturity. If such an agreement is reached, it must be noted on the confirmation.

[2] *See* Notice Concerning Pricing to Call, December 10, 1980, *MSRB Manual* (CCH) paragraph 3571, at 4606.

[3] If a notice of call for the entire issue occurs on or prior to the trade date, delivery cannot be made on the transaction and it must be worked out or arbitrated by the parties. *See* rules G-12(e)(x)(B) and G-15(c)(viii)(B).

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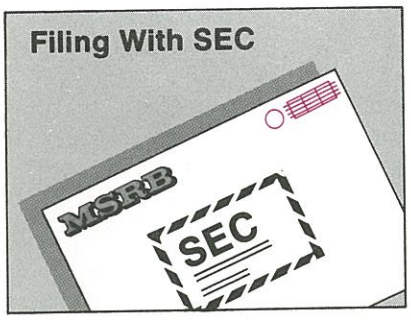

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Revision of Representative Examination: Rule G-3

Revisions Filed

The filing would revise the Board's examination specifications and study outline for the Municipal Securities Representative Qualification Examination.

On June 14, 1989, the Board filed with the Securities and Exchange Commission revised examination specifications and a revised study outline for the Municipal Securities Representative Qualification Examination (Series 52). The Board has requested that the Commission delay the effectiveness of the revisions until January 1, 1990, in order to permit the Series 52 question bank to be updated to reflect the revised examination specifications and study outline and to provide time for information concerning the revised study outline to be circulated to the industry. Persons wishing to comment on the revisions should comment directly to the Commission.[1] The Board will notify the industry when the revised study outline is available for distribution.

Background

Rule G-3(e), on professional qualifications, requires, except as otherwise provided in the rule, every municipal securities representative to take and pass the Series 52 examination prior to being qualified as a municipal securities representative. The Series 52 examination contains questions not only on municipal securities and the municipal markets but also on U.S. Government, federal agency and money market instruments, government economic policy and behavior of interest rates, and applicable federal securities laws and regulations.

Summary of Revisions

The study outline has been updated to reflect current products and practices and to improve clarity (*e.g.*, the section on "Revenue Bonds" was expanded and reformatted to reflect the increasing use of these bonds in the market). The most significant revision made to the current study outline concerns the topic of customer suitability. The current examination tests suitability indirectly by testing the components of suitability (*e.g.*, product knowledge, tax considerations, Board rules). The revised study outline contains the topic "Customer Suitability Considerations" as a direct means to test suitability. This will be achieved by requiring the candidates to answer "application" questions by making suitability determinations with respect to a given customer's financial profile, investment objectives, tax status and similar information.

The examination specifications specify how the questions asked on each examination are to be allocated among the various topics. Some changes were made to increase questions on some topics and to decrease the number in other topic areas. The revised examination will remain a three-hour 100 question examination administered by the National Association of Securities Dealers, Inc. using Control Data Corporation's PLATO computer system.

June 14, 1989

Questions about this notice may be directed to Peter H. Murray, Assistant Executive Director, or Ronald W. Smith, Paralegal.

[1] SEC File No. SR-MSRB-89-4. Comments filed with the Commission should refer to the file number. An application for confidential treatment of the revised examination specifications was filed with the Secretary of the Commission.

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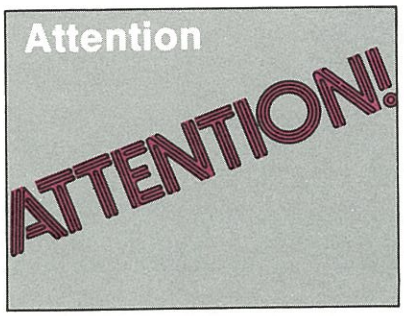
Volume 9, Number 2 August 1989



Route to:
- [X] Manager, Muni Dept.
- [ ] Underwriting
- [ ] Trading
- [ ] Sales
- [ ] Operations
- [ ] Public Finance
- [ ] Compliance
- [ ] Training
- [ ] Other _____

Financial Statements—Fiscal Years Ended September 30, 1988 and 1987

Coopers & Lybrand | certified public accountants

To the Members of the
Municipal Securities Rulemaking Board

We have audited the accompanying balance sheets of the Municipal Securities Rulemaking Board as of September 30, 1988 and 1987, and the related statements of revenues and expenses and change in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits using generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board as of September 30, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

1800 M Street, N.W.
Washington, D.C. 20036
October 31, 1988

MUNICIPAL SECURITIES RULEMAKING BOARD
BALANCE SHEETS
September 30, 1988 and 1987

	1988	1987
ASSETS		
Cash	$ 357,504	$ 89,544
Investments (Note 1)	3,904,647	4,964,447
Assessment fees receivable (Note 1)	138,205	111,470
Accrued interest receivable	72,683	90,350
Other assets	25,440	40,702
Office furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $228,154 in 1988 and $143,593 in 1987 (Note 1)	147,507	177,319
	$4,645,986	$5,473,832
LIABILITIES AND FUND BALANCE		
Accounts payable	$ 84,111	$ 84,572
Accrued salaries and vacation pay	60,444	53,000
Deferred rent credit (Note 2)	189,794	220,795
	334,349	358,367
Commitments (Note 2)		
Fund balance	4,311,637	5,115,465
	$4,645,986	$5,473,832

The accompanying notes are an integral part of these financial statements.

MUNICIPAL SECURITIES RULEMAKING BOARD

STATEMENTS OF REVENUES AND EXPENSES AND CHANGE IN FUND BALANCE

for the years ended September 30, 1988 and 1987

	1988	1987
Revenues:		
Assessment fees (Note 1)	$1,044,489	$2,201,829
Annual fees (Note 1)	278,500	264,500
Initial fees (Note 1)	30,600	29,400
Investment income	307,787	337,292
Board manuals and other	55,423	90,016
	1,716,799	2,923,037
Expenses:		
Salaries and employee benefits (Note 3)	881,735	796,048
Board and committee	674,644	476,329
Operations (Note 2)	427,492	424,080
Education and communication	332,137	336,296
Professional services	119,598	141,546
Depreciation and amortization (Note 1)	85,021	58,014
	2,520,627	2,232,313
Excess of revenues over (under) expenses	(803,828)	690,724
Fund balance, beginning of year	5,115,465	4,424,741
Fund balance, end of year	$4,311,637	$5,115,465

The accompanying notes are an integral part of these financial statements.

MUNICIPAL SECURITIES RULEMAKING BOARD
STATEMENTS OF CASH FLOWS
for the years ended September 30, 1988 and 1987

	1988	1987 (Note 1)
Cash flows from operating activities:		
Excess of revenues over (under) expenses:	$ (803,828)	$ 690,724
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:		
Depreciation and amortization	85,021	58,014
(Increase) decrease in accounts receivable	(26,735)	424,208
Decrease in interest receivable	17,668	-
(Increase) decrease in other assets	15,262	(24,942)
Increase (decrease) in accounts payable and accrued expenses	6,983	(6,505)
(Decrease) increase in deferred credit	(31,000)	38,772
Total adjustments	67,199	489,547
Net cash provided (used) by operating activities	(736,629)	1,180,271
Cash flows from investing activities:		
Acquisition of office equipment	(55,340)	(108,200)
Proceeds from sale of office equipment	168	20,897
Purchase of U.S. Treausry Notes	(1,350,390)	(1,759,806)
Maturities of U.S. Treasury Notes	2,350,000	606,891
Amortization of investment premium/ discount	60,151	-
Net cash provided (used) by investing activities	1,004,589	(1,240,218)
Net increase (decrease) in cash	267,960	(59,947)
Cash at beginning of year	89,544	149,491
Cash at end of year	$ 357,504	$ 89,544

The accompanying notes are an integral part of these financial statements.

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

1. Accounting policies

The Municipal Securities Rulemaking Board (the Board) was established in 1975 pursuant to authority granted by the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975, as an independent, self-regulatory organization charged with rulemaking responsibility for the municipal securities industry.

Assessment fees

The underwriting assessment fee is equal to a percentage of the face amount of all municipal securities which are purchased from an issuer as part of a new issue by or through such municipal securities broker or municipal securities dealer, whether acting as principal or agent, and which have a final stated maturity of not less than two years and an aggregate par value of not less than $1,000,000. This fee amounted to .002% of all such sales from July 1, 1985 through June 30, 1987, and .001% from July 1, 1987 through September 30, 1988. Revenue from assessment fees is recognized upon the sale of the issue and is payable within 30 days of settlement between the underwriter and the issuer.

Annual fees

Each municipal securities broker and municipal securities dealer is required to pay an annual fee of $100 with respect to each fiscal year of the Board in which the municipal securities broker or municipal securities dealer conducts business. This fee is due by February 15 of the fiscal year for which the fee is paid.

Initial fees

The initial fee is a one-time fee of $100, which is to be paid by every municipal securities broker or municipal securities dealer registered with the Securities and Exchange Commission.

Revenue from initial fees is recognized when received by the Board.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

Investments

Investments in securities are stated at amortized cost, which approximates market value.

Depreciation and amortization

Depreciation of fixed assets is computed on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on the straight-line method over the shorter of the remaining lease period or the estimated useful life of the improvement.

Statement of cash flows

In October 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 95 (SFAS No. 95), which requires a statement of cash flows as part of a full set of financial statements in place of a statement of changes in financial position. SFAS No. 95 is effective for annual financial statements for fiscal years ending after July 15, 1988. Accordingly, the financial statements for 1988 include a statement of cash flows. As permitted by SFAS No. 95, the statements of changes in financial position for the year ended September 30, 1987 has been restated to conform with the presentation requirements of SFAS No. 95.

2. Lease agreements

On November 16, 1984, the Board leased new office space under a lease agreement expiring in November 1994. This agreement calls for the Board to receive a rent credit equal to one-half of the base monthly rent for the first 30 months of the lease. As a result, the monthly rental payments will be $9,350 through May 1987 and $18,700 a month for the remainder of the lease term, subject to an annual escalation based on the Consumer Price Index and a proportionate share of the increase in the costs of operating the building.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

For financial reporting purposes, the Board is recognizing rental expense evenly during the 10-year lease term at $16,105 a month. The Board is required to maintain an irrevocable letter of credit of $18,700, in lieu of a security deposit, payable to the lessor as part of the lease agreement. The lease may be renewed at the Board's option, for a period of five years, in accordance with the terms set forth in the lease agreement.

Total lease expense for office space and equipment for the years ended September 30, 1988 and 1987, was $277,517 and $267,385, respectively.

3. Retirement plans

The Board has a defined-contribution retirement plan. All employees are eligible to participate upon attaining a minimum length of service. The Board makes contributions to an insurance company based on a percentage of the salaries of covered employees and their lengths of service. Retirement plan costs are funded as they accrue. Employees may also make voluntary contributions. Costs of the plan were approximately $57,000 in 1988 and $52,000 in 1987.

The Board also has a deferred compensation plan which covers all employees. The Board contributes $.50 for every $1 contributed by an employee, with a maximum Board contribution of 2% of the employee's annual salary. The cost of this plan was approximately $12,000 in 1988 and in 1987.

4. Income taxes

Under provisions of the Internal Revenue Code and applicable income tax regulations of the District of Columbia, the Board is exempt from taxes on income other than unrelated business income. No provision for income taxes is required as of September 30, 1988 and 1987, since the Board had no unrelated business income.

New Issue of *MSRB Manual*

The updated soft-cover edition of the *MSRB Manual*, dated April 1, 1989, now is available.

The *MSRB Manual*, published by Commerce Clearing House, includes the Securities Exchange Act of 1934, the Securities Investor Protection Act of 1970, Board rules and interpretations, pertinent regulations of other agencies and samples of forms.

Copies of the updated *Manual* may be obtained from the Board's offices by submitting a completed order form along with payment in full for the amount due. An order form is located on page of this issue. The cost of the *Manual* is $5.00.

Publications List

Manuals and Rule Texts

MSRB Manual
Soft-cover edition containing the text of MSRB rules, interpretive notices and letters, samples of forms, texts of the Securities Exchange Act of 1934 and of the Securities Investor Protection Act of 1970, as amended, and other applicable rules and regulations affecting the industry. Reprinted semi-annually.
April 1, 1989 ..... $5.00

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

Professional Qualification Handbook
A guide to the requirements for qualification as a municipal securities representative, principal, sales principal and financial and operations principal, with questions and answers on each category. Includes sections on examination procedures, waivers, disqualification and lapse of qualification, the text of MSRB qualification rules and a glossary of terms.
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Each additional copy $1.50

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

Arbitration Information and Rules
Pamphlet reprinting SICA's *Arbitration Procedures* and *How to Proceed with the Arbitration of a Small Claim*, the text of rules G-35 and A-16, a glossary of terms and list of sponsoring organizations.
1988 ..... no charge

Instructions for Beginning an Arbitration
Step-by-step instructions and forms necessary for filing an arbitration claim.
1988 ..... no charge

Reporter and Newsletter

MSRB Reports
The MSRB's reporter and newsletter to the municipal securities industry. Includes notices of rule amendments filed with and/or approved by the SEC, notices of interpretations of MSRB rules, requests for comments from the industry and the public and news items.
Quarterly ..... no charge

Examination Study Outlines

A series of guides outlining subject matter areas a candidate seeking professional qualification is expected to know. Each outline includes a list of reference materials and sample questions.

Study Outline: Municipal Securities Representative Qualification Examination
Outline for Test Series 52.
August 1988 ..... no charge

Study Outline: Municipal Securities Principal Qualification Examination
Outline for Test Series 53.
May 1988 ..... no charge

Study Outline: Municipal Securities Financial and Operations Principal Qualification Examination
Outline for Test Series 54.
1988 ..... no charge

Brochures

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

MSRB Information
Brochure describing Board structure and responsibility, the rulemaking process, and communications with the industry.
1 to 500 copies ..... no charge
Over 500 copies ..... $.05 per copy

MSRB REPORTS
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MSRB Manual (soft-cover edition)	$5.00		
Glossary of Municipal Securities Terms	$1.50		
Professional Qualification Handbook	5 copies per year no charge Each additional copy $1.50		
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Arbitration Information and Rules	no charge		
Instructions for Beginning an Arbitration	no charge		
Study Outline: Municipal Securities Representative Qualification Examination	no charge		
Study Outline: Municipal Securities Principal Qualification Examination	no charge		
Study Outline: Municipal Securities Financial and Operations Principal	no charge		
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