

MSRB REPORTS

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Municipal Securities Rulemaking Board

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Calendar

- July 1** — Effective date of amendments to rule A-13, on underwriting assessments
- Effective date of revisions to Forms G-36
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- September 9** — Effective date of amendments to rule G-3, on professional qualifications

**Route to:**

- Manager, Muni Dept.**
- Underwriting**
- Trading**
- Sales**
- Operations**
- Public Finance**
- Compliance**
- Training**
- Other**

OS/ARD Subsystem of the MSIL System Activated

Notice

The Board's OS/ARD subsystem of the MSIL system was activated on April 20, 1992.

The Board's Official Statement/Advance Refunding Document (OS/ARD) subsystem of the Municipal Securities Information Library™ (MSIL™) system* was activated on April 20, 1992. The OS/ARD subsystem is designed to distribute official statements and advance refunding documents, as well as their respective Forms G-36 which contain certain information about the municipal securities described in those documents, through the use of "optical imaging," a computer based process that captures a document by taking a digital "picture" of it. Once a document is digitized, copies can be distributed on computer tape to subscribers or printed and made available on paper.

Documents Digitized

On April 20, the Board began digitizing documents. They are being digitized according to the following priority: 1) 1992 documents received and processed by the Board that day; 2) 1992 documents received and processed by the Board before April 20 (the Board plans to have all of the January-April 1992 documents digitized by the end of this year); 3) documents received and processed by the Board in 1990; and 4) documents received and processed by the Board in 1991.

Tape Subscription Service

The OS/ARD subsystem provides a daily tape subscription service through which subscribers receive digitized computer files of documents on tape each business day.

Each 1992 document appears on the daily tape no later than three business days after the Board receives and processes it. The daily tape also includes 1992 documents received prior to April 20 as they are digitized. A new subscriber also will receive tapes containing all 1992 documents distributed before it became a subscriber. 1990 and 1991 documents will become available to subscribers when they are digitized.

A subscription costs \$12,000 a year plus shipping and includes all documents received and processed by the Board during the calendar year subscribed for. Persons interested in subscribing to the OS/ARD subsystem should contact the Board's offices.

Paper Copies of Documents

The Board plans to make paper copies of documents digitized and processed available in July 1992 at a prepaid price of \$15 per document. Persons interested in determining if a copy of a particular document is available should contact the Board's offices.

June 22, 1992

Questions about this notice may be directed to Thomas A. Hutton, Director of MSIL.

* Municipal Securities Information Library and MSIL are trademarks of the Board.



Route to:

- Manager, Muni Dept.
- Underwriting
- Trading
- Sales
- Operations
- Public Finance
- Compliance
- Training
- Other

CUSIP Number Eligibility Standards and Requirement to Obtain CUSIP Numbers: Rule G-34

Comments Requested

The Board —

- requests comments on a suggested revision of CUSIP eligibility standards. The revisions would make nearly all issues, including those under \$250,000 in par value, eligible for CUSIP numbering and subject to the requirement for mandatory CUSIP numbering under Board rule G-34.
- reminds dealers of their current responsibility under rule G-34 to obtain CUSIP numbers for all new issues that are now eligible for CUSIP number assignment.
- also reminds dealers that applications for CUSIP number should not be made for certain types of local improvement district bonds that are callable in order of certificate number and that consequently are not eligible for CUSIP number assignment.

Background

CUSIP numbers are widely used in the municipal securities industry to identify securities for various purposes such as trading, recordkeeping, clearance and settlement, call processing, customer account transfers and safekeeping.¹ Board rules G-12(c) and G-15(a) require the use of CUSIP numbers on customer and inter-dealer confirmations to ensure accurate identification of the securities being sold or traded. In addition, most of the automated systems for securities processing used

by dealers, clearing agents, service bureaus and banks use CUSIP numbers for municipal securities identification. Moreover, the central automated clearance and settlement systems require CUSIP numbers to process municipal securities transactions.

Rule G-34

Because of the importance of CUSIP numbers in the municipal securities market, Board rule G-34 places certain requirements on brokers, dealers and municipal securities dealers ("dealers") to ensure that CUSIP numbers are assigned to municipal securities. With respect to new issues, a dealer who acquires municipal securities from the issuer (whether the dealer is acting as principal or as agent) must apply to the Board or its designee to obtain CUSIP numbers for the issue.² The Board has designated the CUSIP Service Bureau to receive these applications.³ If the offering of the new issue is made on a competitive basis, any dealer serving as financial advisor to the issuer shares the responsibility to obtain CUSIP numbers with the dealer acquiring the issue. Rule G-34 also states that the application for CUSIP numbers for new issues must be made in sufficient time to permit the numbers to be assigned by the business day on which the contract to purchase the issue from the issuer is signed (for negotiated issues) or the date of award (for competitive offerings).

The scope of rule G-34 extends to all new issues of municipal securities that are eligible for CUSIP numbering. Therefore, any dealer that acquires a new issue, or that serves as financial

Comments on the matters discussed in this notice should be submitted no later than August 15, 1992, and may be directed to Harold L. Johnson, Deputy General Counsel. Written comments will be available for public inspection.

¹ CUSIP stands for "Committee on Uniform Securities Identification Procedures." The rights to the CUSIP numbering system are owned by the American Bankers Association and the operation of the system is supervised by the CUSIP Board of Trustees. The CUSIP numbering system is operated by the CUSIP Service Bureau, an organization within the Standard and Poor's Corporation, under license agreement with the American Bankers Association.

² If a syndicate is formed for the purchase of securities, the managing underwriter is responsible for making the application. In addition to this requirement for new issues, rule G-34 also contains certain requirements with respect to obtaining new CUSIP numbers for municipal securities in the secondary market upon the occurrence of certain events. Such events include the acquisition of secondary market bond insurance and advance refunding of portions of maturities.

³ The Board has an agreement with the CUSIP Service Bureau concerning the procedures that will be observed in the assignment of CUSIP numbers to municipal securities. The agreement, among other things, states the Board's role in determining the eligibility standards for CUSIP numbering of municipal securities and the criteria under which separate numbers are assigned to differentiate between various securities within an issue.

advisor on a competitive offering of a new issue, must ensure that CUSIP numbers are assigned unless the issue is ineligible for CUSIP numbering.

CUSIP Eligibility Criteria

The *CUSIP Directory*, a publication of the CUSIP Service Bureau, sets forth the basic eligibility criteria for CUSIP numbering. The *CUSIP Directory* states that municipal issues, "including Short Term Notes and Local Assessment Districts, etc.," may be assigned CUSIP numbers under the following conditions:

- The issue has a par value of \$500,000 or more;
- The issue has a par value of \$250,000 or more and the issuer has outstanding debt in excess of \$250,000; or
- The issuer has outstanding debt in excess of \$500,000 and a CUSIP subscriber requests assignment of a number to an issue (of any par amount) with proper documentation, preferably a copy of the Official Statement.

In addition to the par value criteria noted above, a few specialized types of municipal securities are ineligible for CUSIP numbering. For example, certain issues of "local improvement district" bonds are ineligible for CUSIP numbering because of a redemption provision in the issues that allows securities to be called in numerical order of certificate number (e.g., certificate #1 and certificate #2 have same nominal maturity date, but certificate #1 is more likely to be called than is certificate #2). The certificates within such an issue generally are not interchangeable ("fungible") in the marketplace because of the operation of this call provision. Therefore, it is inappropriate for a single CUSIP number to identify multiple certificates, even though they may share the same maturity date and other relevant features.

Tax-exempt commercial paper also is currently ineligible for CUSIP numbering. However, the CUSIP Service Bureau and Depository Trust Company are looking at making municipal commercial paper depository eligible, which would require CUSIP numbering of the securities.

New Issues Not Receiving CUSIP Numbers

It has come to the Board's attention that, although most new issues of municipal securities are being assigned CUSIP numbers at original issuance, there are some new issues each year that are not assigned CUSIP numbers. Since July 1, 1990 — the effective date of rule G-36 on providing official statements to the Board — the Board has monitored CUSIP number assignment to new issues.⁴ Official statements for several hundred new issues are sent to the Board each year without CUSIP numbers. Because of the industry's increasing reliance on automated processing systems that require CUSIP numbers, the Board believes that it is appropriate to review the general area of CUSIP numbering of municipal securities.

Need for Improved Compliance with Rule G-34

Some of the new issues that are not being assigned CUSIP numbers meet CUSIP eligibility criteria, but do not receive numbers because applications are not made to the CUSIP Service Bureau. These situations generally represent violations of rule G-34 by the underwriter of the issue.⁵ In some cases, the application for CUSIP numbers is not made because the underwriter incorrectly assumes that the issue is ineligible for CUSIP number assignment or that rule G-34 does not apply to the issue. Such misunderstandings sometimes occur with respect to short-term issues under one year in maturity, with respect to issues that are privately placed⁶ by a dealer and issues (usually notes) that are safekept by the underwriter without physical delivery of certificates to customers.

The Board reminds dealers who serve as underwriters, placement agents and financial advisors that municipal securities under one year in maturity and private placements generally are eligible for CUSIP numbering and thus are subject to the requirements of rule G-34. In addition, the Board wishes to make clear that there currently exists no exemption from rule G-34 for underwriters that safekeep all securities of an issue for their customers. Accordingly, dealers should apply for and obtain CUSIP numbers for all new issues that are eligible for CUSIP number assignment by providing appropriate documentation to the CUSIP Service Bureau. Official statements and Forms G-36 submitted to the Board under rule G-36 are reviewed for CUSIP number assignment.

Underwriters failing to obtain CUSIP numbers as required by rule G-34 may have official statements returned by the Board and the Board may in the future report these apparent violations of rule G-34 to the appropriate enforcement agencies.

Local Improvement District Bonds

Although special care must be taken to ensure that CUSIP numbers are obtained for all issues eligible for CUSIP numbering, dealers are not required to apply for CUSIP numbers for those issues that are ineligible for CUSIP numbering. The Board has observed that CUSIP numbers recently have been tentatively assigned to several local improvement district bonds that are callable in order of certificate number. For the reasons noted above, such issues should *not* be assigned CUSIP numbers. Accordingly, dealers should not apply for CUSIP numbers for these types of new issues.

If questions arise whether a specific issue is eligible for CUSIP numbering, the CUSIP Service Bureau should be contacted. The telephone number for the CUSIP Service Bureau is (212) 208-8345.

Request for Comment on Proposed Expansion of CUSIP Eligibility Criteria

The Board is in the process of reviewing CUSIP eligibility standards and the scope of rule G-34. It appears that many of

⁴ CUSIP numbers, if assigned to an issue, are required on the Forms G-36(OS) that must be sent with the official statements to the Board under rule G-36.

⁵ In addition, in a competitive offering, any dealer serving as financial advisor also violates rule G-34 if CUSIP numbers are not assigned to securities that are eligible for numbering.

⁶ A "private placement," as used in this notice, refers to any new issue of municipal securities that is "placed" by a dealer, on an agency basis, with one or more investors. Rule G-34 applies to any dealer who acquires a new issue, whether as principal or agent, from the issuer of the securities. Thus, rule G-34 applies to such private placements as long as the placement agent for the transaction is a dealer.

the new issues that are not being assigned CUSIP numbers are smaller issues that fail to meet the minimum par value criteria of \$250,000 or \$500,000 described above. The Board believes that these smaller issues should be eligible for CUSIP number assignment. The Board proposes to communicate this view to the CUSIP Board of Trustees and the CUSIP Service Bureau and to ask that consideration be given to eliminating all par value restrictions in the CUSIP eligibility criteria. The Board requests comment on this proposed expansion of CUSIP eligibility criteria.

Mandatory CUSIP Numbering of Smaller Issues

If CUSIP eligibility criteria is expanded to those issues under the \$250,000/\$500,000 par value criteria, rule G-34 then will require dealers to apply for CUSIP numbers for these issues. The Board believes that mandatory CUSIP numbering of these smaller issues is appropriate because of the increasing reliance of the municipal securities industry on automated processing techniques that require CUSIP numbers. As an example of this trend, the Board recently proposed amendments to rules G-12(f) and G-15(d) that effectively will complete the transition of the municipal securities industry to automated clearance and settlement systems.⁷ In addition, implementation of the Group of Thirty project and the goal of a shortened settlement cycle will depend upon the use of automated processing techniques that require CUSIP numbers. Since transactions in securities without CUSIP numbers necessarily would have to be processed outside of the automated systems, on an exception basis, the Board believes that the CUSIP numbering of new issues of municipal securities should, to the extent feasible, be universal.⁸

Possible Exemptions from Rule G-34

The Board is aware that, under current practice, CUSIP numbers sometimes are not obtained for smaller issues, short-

term issues and issues sold to a limited number of customers. In some cases, the dealers acting as underwriters, placement agents or financial advisors for these issues believe that CUSIP numbers are unnecessary because the securities are not expected to trade in the secondary market. Although these new issues may be sold with the assumption that they will be held by the original investors until maturity, the Board notes that such securities sometimes do appear for sale in the secondary market. The Board strongly believes that whenever municipal securities are offered for sale in the market or must be processed through financial intermediaries, CUSIP numbers should be available to identify the securities accurately. Accordingly, the Board's view at this time is that there should be no exceptions to rule G-34 and that CUSIP number assignment should be mandatory for all new issue municipal securities that are eligible for number assignment, regardless of the maturity date of the securities, the method of sale or extent of distribution.

The Board invites comment on whether exemptions are needed in rule G-34. If exemptions are suggested, the Board requests comment on how the exemptions should be structured. The Board understands that it might be possible for those securities not assigned CUSIP numbers at original issuance to be assigned CUSIP numbers in the secondary market if, for example, the securities later are offered for sale. The Board, however, is concerned that the need to obtain CUSIP numbers prior to offering securities in the secondary market might affect the liquidity of the securities in a manner that may not be readily understood by the original investor. For these reasons, the Board's preliminary view is that a requirement to obtain CUSIP numbers in the secondary market would not provide a viable substitute for CUSIP number assignment at original issuance. However, the Board specifically requests comment on this point.

June 19, 1992

⁷ See *MSRB Reports*, Vol. 12, No. 1 (April 1992) at 31.

⁸ The Board recognizes that, even if the par value limitations in the current CUSIP eligibility criteria are eliminated, there will remain a very small number of municipal securities that are ineligible for CUSIP numbers and that will have to continue to be processed on an exception basis. As discussed above, these include certain local improvement district bonds that are callable in order of certificate numbers.



Route to:

- Manager, MuniDept.
- Underwriting
- Trading
- Sales
- Operations
- Public Finance
- Compliance
- Training
- Other

Professional Qualifications: Rule G-3

Amendments Approved

The amendments revise the organization of the rule and delete the references to the "grandfathering" provisions.

On June 11, 1992, the Securities and Exchange Commission approved amendments to rule G-3, on professional qualifications.¹ The amendments revise the organization of the rule to clarify its requirements and delete the reference to the "grandfathering" provisions. The amendments will become effective on September 9, 1992. The Board requested that the Commission delay the effective date of the amendments for 90 days after Commission approval. This will allow adequate time for individuals to verify their qualifications registrations with the appropriate regulatory agencies to ensure that their registrations are accurate, particularly those individuals who have been acting as municipal securities principals or municipal securities representatives with the belief that their records indicate they were "grandfathered" as such.

Reorganization of Rule G-3

The amendments revise the organization of the rule into the following headings:

- (a) Municipal Securities Representative
 - (i) Definition
 - (ii) Qualification Requirements
 - (iii) Apprenticeship
- (b) Municipal Securities Principal
 - (i) Definition
 - (ii) Qualification Requirements
 - (iii) Numerical Requirements
- (c) Municipal Securities Sales Principal
 - (i) Definition
 - (ii) Qualification Requirements
- (d) Financial and Operations Principal
 - (i) Definition
 - (ii) Qualification Requirements
 - (iii) Numerical Requirements

- (e) Confidentiality of Qualification Examinations
- (f) Retaking of Qualification Examinations
- (g) Waiver of Qualification Requirements

The reorganization of rule G-3 makes the presentation of the rule's requirements more understandable. The definitions, qualification requirements, and numerical and apprenticeship requirements, if applicable, have been brought under the major headings of each category of associated person. In reorganizing the rule's presentation, no additional qualification requirements have been placed in the rule.

Numerical Requirements

The numerical requirements for municipal securities principals have been placed in revised section (b) with the definition and qualification requirements of municipal securities principals. The minimum number of municipal securities principals required to be associated with a dealer engaging in a municipal securities business are:

- An NASD-member firm which conducts a general securities business is required to have at least one municipal securities principal;
- A dealer which has fewer than eleven associated persons employed in any capacity on a full-time basis must also have at least one municipal securities principal; and
- All other dealers must have at least two municipal securities principals.

The numerical requirement for financial and operations principals has been placed in revised section (d) with the definition and qualification requirements of financial and operations principals. Every dealer, except for bank dealers and "introducing brokers", is required to have at least one associated person, its chief financial officer, qualified as a financial and operations principal. The individual with the policy-making authority for the processing and clearance of municipal securities for a bank dealer is required to qualify as a municipal securities principal.

Questions about the amendments may be directed to Ronald W. Smith, Senior Analyst.

¹ SEC Release No. 34-30798.

The numerical requirement for financial and operations principals also does not apply to dealers which function solely as "introducing brokers."

No substantive changes were made to the provisions on numerical requirements.

Apprenticeship

An individual who first becomes associated with a dealer in a representative capacity (whether as a municipal securities representative or general securities representative) and who has not previously qualified as a municipal securities representative or general securities representative must complete a period of apprenticeship. In revised rule G-3, the requirements of this section have been placed in section (a) along with the definition and qualification requirements of municipal securities representatives. In addition, language has been added to the rule to clarify that prior experience, of at least 90 days, as a general securities representative, mutual fund salesperson or government securities representative would fulfill the apprenticeship requirement. After the apprenticeship requirement has been fulfilled once, it need not be served again in a qualification renewal.

Confidentiality of Qualification Examinations and Retaking of Qualification Examinations

Revised sections (e), on confidentiality of the qualification examinations, and (f), on retaking of qualification examinations, have not been substantively revised. Section (e) sets forth strict prohibitions of activities that would compromise the confidential nature of a Board examination or its purpose as a test of an individual's professional qualifications. Section (f) imposes specified time periods before an individual may retake a failed examination. There is no provision in the rule which allows these time period restrictions to be waived under any circumstances.

Waiver of Qualification Requirements

A new section (g), on waiver of qualification requirements, has been added to the rule. This section contains the same provisions as the current rule G-3; revised section (g) simply presents under one heading the waiver provisions applicable to the four associated person qualification examinations and the apprenticeship period for municipal securities representatives as currently contained in various sections throughout the rule.

The waiver exemption is granted only in extraordinary circumstances—it is not a means to circumvent the intent and spirit of the examination or the apprenticeship requirement. For the most part, the Board expects that a candidate demonstrate competence by examination. The decision to grant a waiver request is made by the appropriate regulatory body which has jurisdiction over the dealer—either the NASD or the three federal bank regulatory agencies. Waiver requests are made directly to the organization which regulates the applicant's dealer.

Deletion of "Grandfathering" Provisions

Individuals seeking to qualify at this time in any of the four categories of associated persons are required to take qualification examinations or obtain a waiver from the qualification requirements. For a period of time following the development

of the qualification rules and their implementation, certain industry professionals became qualified as municipal securities representatives or municipal securities principals based on designated qualification credentials in a specified area at a specified time. Qualification through this means is known as "grandfathering."

An individual may have qualified as a municipal securities representative by "grandfathering" if one or more of the following criteria had been met:

- The individual was functioning as a municipal securities representative on December 1, 1975, and continuously functioned in this capacity through July 14, 1978;
- The individual was qualified as a general securities representative or a general securities principal by the NASD on July 14, 1978;
- The individual was qualified in a general securities supervisory capacity (branch manager or allied member) with a national securities exchange on July 14, 1978;
- The individual was associated with a SECO firm as a qualified general securities representative or principal on July 14, 1978; or
- The individual began functioning as a municipal securities representative after December 1, 1975; was qualified at that time as a general securities representative or principal or in a general securities supervisory capacity (each as above); and continuously functioned as a municipal securities representative from that time until July 14, 1978.

An individual may have qualified as a municipal securities principal by "grandfathering" if one or more of the following criteria had been met:

- The individual was functioning as a municipal securities principal on December 1, 1975, and continuously functioned in this capacity through November 28, 1979;
- The individual was qualified as a general securities principal with the NASD on November 28, 1979;
- The individual was qualified in a general securities supervisory capacity (branch manager or allied member) with a national securities exchange on November 28, 1979;
- The individual was associated with a SECO firm and was qualified as a general securities principal with the SEC on November 28, 1979; or
- The individual began functioning as a municipal securities principal after December 1, 1975; was qualified at the time as a general securities principal or in a general securities supervisory capacity; and continuously functioned as a municipal securities principal from that time until November 28, 1979.

The amendments clarify and simplify the qualification requirements of rule G-3 by removing the references to the "grandfathering" provisions. The "grandfathering" provisions are no longer relevant to anyone seeking to qualify as a municipal securities principal or municipal securities representative at this time. The amendment to delete from the rule language the cut-off dates applicable to the "grandfathering" provisions does not affect the qualification status of those individuals who have qualified as municipal securities principals or municipal securities representatives through

"grandfathering."

Qualification through "grandfathering" does not mean that an individual is always qualified in a particular category. A municipal securities representative ceasing to be an associated person with a dealer for two years or more loses his or her qualification status as a municipal securities representative. A municipal securities principal ceasing to supervise in his or her area of responsibility for two years or more loses qualification status as a municipal securities principal. In 1985, the Board clarified that the definition of a municipal securities principal relates only to an associated person of a dealer that is in compliance with rule A-12.² Therefore, rule G-3 requires that a person be associated with a dealer in compliance with rule A-12 in order to be considered as acting as a municipal securities principal. After two years of association with a dealer not in compliance with rule A-12, an individual would no longer be qualified as a municipal securities principal.

June 11, 1992

Text of Amendments*

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

No ~~municipal securities broker, dealer or municipal securities dealer or person who is a municipal securities representative, municipal securities principal, financial and operations principal, municipal securities representative, or municipal securities sales principal or financial and operations principal~~ (as hereafter defined) shall be qualified for purposes of rule G-2 unless such ~~municipal securities broker, dealer or municipal securities dealer or person~~ meets the requirements of this rule.

~~(a) through (i)~~

(a) Municipal Securities Representative.

(i) Definition. The term "municipal securities representative" means a natural person associated with a broker, dealer or municipal securities dealer, other than a person whose functions are solely clerical or ministerial, whose activities include one or more of the following:

(A) underwriting, trading or sales of municipal securities;

(B) financial advisory or consultant services for issuers in connection with the issuance of municipal securities;

(C) research or investment advice with respect to municipal securities; or

(D) any other activities which involve communication, directly or indirectly, with public investors in municipal securities;

provided, however, that the activities enumerated in subparagraphs (C) and (D) above shall be limited to such activities as they relate to the activities enumerated in

subparagraphs (A) and (B) above.

(ii) Qualification Requirements.

(A) Except as otherwise provided in this paragraph (a)(ii), every municipal securities representative shall take and pass the Municipal Securities Representative Qualification Examination prior to being qualified as a municipal securities representative. The passing grade shall be determined by the Board.

(B) The requirements of subparagraph (a)(ii)(A) of this rule shall not apply to any person who is duly qualified as a general securities representative by reason of having taken and passed the General Securities Registered Representative Examination.

(C) Any person who ceases to be associated with a broker, dealer or municipal securities dealer (whether as a municipal securities representative or otherwise) for two or more years at any time after having qualified as a municipal securities representative in accordance with subparagraphs (a)(ii)(A) or (B) shall again meet the requirements of subparagraphs (a)(ii)(A) or (B) prior to being qualified as a municipal securities representative.

(iii) Apprenticeship.

(A) Any person who first becomes associated with a broker, dealer or municipal securities dealer in a representative capacity (whether as a municipal securities representative or general securities representative) without having previously qualified as a municipal securities representative or general securities representative shall be permitted to function in a representative capacity without qualifying pursuant to subparagraphs (a)(ii)(A) or (B) for a period of at least 90 days following the date such person becomes associated with a broker, dealer or municipal securities dealer, provided, however, that such person shall not transact business with any member of the public with respect to, or be compensated for transactions in, municipal securities during such 90 day period, regardless of such person's having qualified in accordance with the examination requirements of this rule. A person subject to the requirements of this paragraph (a)(iii) shall in no event continue to perform any of the functions of a municipal securities representative after 180 days following the commencement of such persons association with such broker, dealer or municipal securities dealer, unless such person qualifies as a municipal securities representative pursuant to subparagraphs (a)(ii)(A) or (B).

(B) Prior experience, of at least 90 days, as a general securities representative, mutual fund salesperson or government securities representative, will meet the requirements of this paragraph (a)(iii).

(b) Municipal Securities Principal.

(i) Definition. The term "municipal securities principal" means a natural person (other than a municipal securities sales principal), associated with a broker, dealer or municipi-

² Rule A-12 requires a dealer to submit certain identifying information to the Board along with payment of a \$100 initial fee prior to effecting any transactions in municipal securities.

* Underlining indicates new language; strikethrough indicates deletions.

pal securities dealer that has filed with the Board in compliance with rule A-12, who is directly engaged in the management, direction or supervision of one or more of the following activities:

(A) underwriting, trading or sales of municipal securities;

(B) financial advisory or consultant services for issuers in connection with the issuance of municipal securities;

(C) processing, clearance, and, in the case of brokers, dealers and municipal securities dealers other than bank dealers, safekeeping of municipal securities;

(D) research or investment advice with respect to municipal securities;

(E) any other activities which involve communication, directly or indirectly, with public investors in municipal securities;

(F) maintenance of records with respect to the activities described in subparagraphs (A) through (E); or

(G) training of municipal securities principals or municipal securities representatives;

provided, however, that the activities enumerated in subparagraphs (D) and (E) above shall be limited to such activities as they relate to the activities enumerated in subparagraphs (A) or (B) above.

(ii) Qualification Requirements.

(A) Every municipal securities principal shall take and pass the Municipal Securities Principal Qualification Examination prior to being qualified as a municipal securities principal. The passing grade shall be determined by the Board.

(B) Any person seeking to become qualified as a municipal securities principal in accordance with subparagraph (b)(ii)(A) of this rule, must, prior to being qualified as a municipal securities principal:

(1) have been duly qualified as either a municipal securities representative or a general securities representative; or

(2) have taken and passed either the Municipal Securities Representative Qualification Examination or the General Securities Registered Representative Examination.

(C) Any person who ceases to act as a municipal securities principal for two or more years at any time after having qualified as such shall meet the requirements of subparagraphs (b)(ii)(A) and (B) prior to being qualified as a municipal securities principal.

(D) For the first 90 days after becoming a municipal securities principal, the requirements of subparagraph (b)(ii)(A) shall not apply to any person who is qualified as a municipal securities representative, general securities representative or general securities principal, provided, however, that such person shall take and pass the Municipal Securities Principal Qualification Examination within that period.

(iii) Numerical Requirements. Every broker, dealer and municipal securities dealer shall have at least two municipal securities principals, except:

(A) every broker, dealer or municipal securities dealer which is a member of a registered securities associa-

tion and which conducts a general securities business, or

(B) every broker, dealer or municipal securities dealer having fewer than eleven persons associated with it in whatever capacity on a full-time or full-time equivalent basis who are engaged in the performance of its municipal securities activities, or, in the case of a bank dealer, in the performance of its municipal securities dealer activities.

shall have at least one municipal securities principal.

(c) Municipal Securities Sales Principal.

(i) Definition. The term "municipal securities sales principal" means a natural person (other than a municipal securities principal) associated with a broker, dealer or municipal securities dealer (other than a bank dealer) whose supervisory activities with respect to municipal securities are limited exclusively to supervising sales to and purchases from customers of municipal securities.

(ii) Qualification Requirements.

(A) Every municipal securities sales principal shall take and pass the General Securities Sales Supervisor Qualification Examination prior to acting in such capacity. The passing grade shall be determined by the Board.

(B) Any person seeking to become qualified as a municipal securities sales principal in accordance with subparagraph (c)(ii)(A) of this rule, must, prior to being qualified as a municipal securities sales principal:

(1) have been duly qualified as either a municipal securities representative or a general securities representative; or

(2) have taken and passed either the Municipal Securities Representative Qualification Examination or the General Securities Registered Representative Examination.

(C) Any person who ceases to act as a municipal securities sales principal for two or more years at any time after having qualified as such shall meet the requirements of subparagraphs (c)(ii)(A) and (B) prior to being qualified as a municipal securities sales principal.

(D) For the first 90 days after becoming a municipal securities sales principal, the requirements of subparagraph (c)(ii)(A) shall not apply to any person who is qualified as a municipal securities representative, general securities representative or general securities principal, provided, however, that such person shall take and pass the General Securities Sales Supervisory Qualification Examination within that period.

(d) Financial and Operations Principal.

(i) Definition. The term "financial and operations principal" means a natural person associated with a broker, dealer 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) approval of and responsibility for financial reports

required to be filed with the Commission or any self-regulatory organization;

(B) final preparation of such reports;

(C) overall supervision of individuals who assist in the preparation of such reports;

(D) overall supervision of and responsibility for individuals who are involved in the maintenance of the books and records from which such reports are derived;

(E) overall supervision and/or performance of the responsibilities of the broker, dealer or municipal securities dealer pursuant to the financial responsibility rules under the Act;

(F) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the processing and clearance functions of such broker, dealer or municipal securities dealer; and

(G) overall supervision of and responsibility for all individuals who are involved in the administration and maintenance of the safekeeping functions of such broker, dealer or municipal securities dealer.

(ii) Qualification Requirements.

(A) Every financial and operations principal shall be qualified in such capacity in accordance with the rules of a registered securities association.

(B) Any person who ceases to be associated with a 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 paragraph (d)(ii) shall 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) Numerical Requirements. Every broker, dealer and municipal securities dealer (other than a bank dealer and 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) shall have at least one financial and operations principal, including its chief financial officer, qualified in accordance with paragraph (d)(ii) of this rule.

(e) Confidentiality of Qualification Examinations. No associated person of a broker, dealer or municipal securities dealer shall:

(i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;
(ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;

(iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or

(iv) knowingly sign a false certification concerning any such qualification examination.

(f) Retaking of Qualification Examinations. Any associated person of a broker, dealer or municipal securities dealer who fails to pass a qualification examination prescribed by the Board shall be permitted to take the examination again after a period of 30 days has elapsed from the date of the prior examination, except that any person who fails to pass an examination three or more times in succession shall be prohibited from again taking the examination until a period of six months has elapsed from the date of such person's last attempt to pass the examination.

(g) Waiver of Qualification Requirements.

(i) The requirements of paragraphs (a)(ii), (a)(iii), b(ii) and (c)(ii) may be waived in extraordinary cases for any associated person of a broker, dealer or municipal securities dealer who demonstrates extensive experience in a field closely related to the municipal securities business of such broker, dealer or municipal securities dealer. Such waiver may be granted by

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

(B) the appropriate regulatory agency as defined in section 3(a)(34) of the Act with respect to a person associated with any other broker, dealer or municipal securities dealer.

(ii) The requirements of paragraph (d)(ii) may be waived for any associated person of a broker, dealer 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 by a registered securities association with respect to a person associated with a member of such association.

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