MSRB
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September 30 —	Comments due on predispute arbitration agreements

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Predispute Arbitration Agreements

Comments Requested

The Board requests comments concerning the use of predispute arbitration clauses in customer account agreements.

The Securities and Exchange Commission has asked the Board and the other self-regulatory organizations to review issues raised by the use of predispute arbitration agreements in the securities industry. These agreements usually provide that any dispute arising between the dealer and the customer will be resolved in binding arbitration. They typically are contained in the account agreement signed by the customer upon opening a new account and, traditionally, have been used in margin and option account agreements. However, the SEC has noted a trend for all customer accounts, including cash accounts, to contain an arbitration clause.

In light of the SEC's request, the Board seeks comments on the issues raised below.

Cash Accounts

For customers with cash accounts, are account agreements used? If so, are predispute arbitration clauses included in these agreements? Are these clauses explained to customers or highlighted in any way? When are account agreements executed? Are they executed prior to effecting transactions in municipal securities?

DVP Accounts

For customers with delivery-versus-payment accounts, are account agreements used? If so, are predispute arbitration clauses included in these agreements? Are these clauses explained to customers or highlighted in any way? When are account agreements executed? Are they executed prior to effecting transactions in municipal securities?

Margin Accounts

Are margin accounts available to municipal securities customers? What percentage of municipal securities customers open margin accounts? For customers with margin accounts, are account agreements used? If so, are predispute arbitration clauses included in these agreements? Are they explained to customers or highlighted in any way? Do arbitration clauses in margin account agreements extend only to margin-related disputes or to any dispute arising between the customer and the dealer? When are margin account agreements executed? Are they executed prior to effecting any transactions in municipal securities?

Voluntariness

When predispute arbitration clauses are included in customer account agreements, are customers permitted to delete these clauses and still open an account? Do certain classes of customers (*e.g.*, institutional customers) have the opportunity to open an account without agreeing to the arbitration clause? If so, is this opportunity explained to customers? Do customers who sign arbitration clauses receive any benefits or preferences from the dealer?

Arbitration Clauses

The Board requests that dealers provide examples of the predispute arbitration clauses used in their account agreements. The Board also requests information whether these clauses are included in account agreements or in a separate document. Are the clauses highlighted with large or different colored print? Do these clauses limit certain investor rights, such as the right to obtain punitive damages or attorney fees in arbitration which may be allowed under state law? Do these clauses explain the important distinctions between the arbitration and judicial forums, including the limited appeal rights in arbitration? Is a separate signing or initialing of the clause required? When are these clauses signed?

Miscellaneous

The Board requests information about the extent to which

Comments on the matters discussed in this notice should be submitted no later than September 30, 1988, and may be directed to Diane G. Klinke, Deputy General Counsel. Written comments will be available for public inspection.

customer disputes are resolved through litigation and the extent to which they are resolved through arbitration. The Board also requests information whether dealers employ legal counsel or use in-house legal staff to handle arbitration, and whether arbitration is a faster and/or cheaper means of resolving disputes and why.

Matters Not Appropriate for Arbitration

The SEC has suggested that the self-regulatory organizations consider whether certain types of disputes should be resolved by courts or more specialized procedures rather than through existing arbitration facilities. For example, the Board does not accept employment disputes or antitrust claims for arbitration. The Board requests comments whether to expand this list to include other types of cases, such as class actions or large and complex cases.

August 15, 1988

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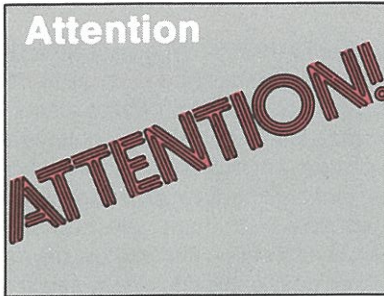

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Confirmation, Delivery and Reclamation of Interchangeable Securities: Rules G-12 and G-15

Notice

For transactions on or after September 18, 1988, the amendments to rules G-12 and G-15 will —

- **permit interchangeable securities to be delivered in either bearer or registered form, unless the parties agree to a specific form of delivery;**
- **eliminate the one-day reclamation provision for interchangeable securities delivered in registered form; and**
- **eliminate the requirement to designate a security as being in registered form on inter-dealer and customer confirmations.**

The Board is providing the following interpretive guidelines on the application of the amendments.

In March 1988, the Securities and Exchange Commission approved amendments to rules G-12 and G-15 concerning municipal securities that may be issued in bearer or registered form (interchangeable securities).[1] These amendments will become effective for transactions executed on or after September 18, 1988. The amendments revise rules G-12(e) and G-15(c) to allow inter-dealer and customer deliveries of interchangeable securities to be either in bearer or registered form, ending the presumption in favor of bearer certificates for such deliveries. The amendments also delete the provision in rule G-12(g) that allows an inter-dealer delivery of interchangeable securities to be reclaimed within one day if the delivery is in registered form. In addition, the amendments remove the provisions in rules G-12(c) and G-15(a) that require dealers to disclose on inter-dealer and customer confirmations that securities are in registered form.

The Board has received inquiries on several matters concerning the amendments and is providing the following clarifications and interpretive guidance.

Deliveries of Interchangeable Securities

Several dealers have asked whether the amendments apply to securities that can be converted from bearer to registered form, but that cannot then be converted back to bearer form. These securities are "interchangeable securities" because they originally were issuable in either bearer or registered form. Therefore, under the amendments, physical deliveries of these certificates may be made in either bearer or registered form, unless a contrary agreement has been made by the parties to the transaction.[2]

The Board also has been asked whether a mixed delivery of bearer and registered certificates is permissible under the amendments. Since the amendments provide that either bearer or registered certificates are acceptable for physical deliveries, a delivery consisting of bearer and registered certificates also is an acceptable delivery under the amendments.

Fees for Conversion

Transfer agents for some interchangeable securities charge fees for conversion of registered certificates to bearer form. Dealers should be aware that these fees can be substantial and, in some cases, may be prohibitively expensive. Dealers, therefore, should ascertain the amount of the fee prior to agreeing to deliver bearer certificates. A dealer may pass on the costs of converting registered securities to bearer form to its customer. In such a case, the dealer must disclose the amount of the conversion fee to the customer at or prior to the time of

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

[1] *See* SEC Release No. 34-25489 (March 18, 1988); *MSRB Reports* vol. 8, no. 2 (March 1988), at 3.

[2] The amendments should substantially reduce delays in physical deliveries that result because of dealer questions about whether specific certificates should be in bearer form. This efficiency would be impossible if these "one-way" interchangeable securities were excluded from the amendments since dealers would be required to determine, for each physical delivery of registered securities, whether the securities are "one-way" interchangeable securities.

trade, and the customer must agree to pay it.[3] In addition, rule G-15(a)(iii)(J) requires that the dealer note such an agreement (including the amount of the conversion fee) on the confirmation.[4] The conversion fee, however, should not be included in the price when calculating the yield shown on the confirmation.[5] In collecting this fee, the dealer merely would be passing on the cost imposed by a third party, voluntarily assumed by the customer, relating to the form in which the securities are held. The conversion fee thus is not a necessary or intrinsic cost of the transaction for purposes of yield calculation.[6]

Continued Application of the Board's Automated Clearance Rules

The Board's automated clearance rules, rules G-12(f) and G-15(d), require book-entry settlements of certain inter-dealer and customer transactions.[7] The amendments on interchangeable securities address only physical deliveries of certificates and, therefore, apply solely to transactions that are not required to be settled by book-entry under the automated clearance rules.

When a physical delivery is permitted under Board rules (*e.g.*, because the securities are not depository eligible), dealers may agree at the time of trade on the form of certificates to be delivered. When such an agreement is made, this special condition must be included on the confirmation, as required by rules G-12(c)(vi)(I) and G-15(a)(iii)(J).[8] Dealers, however, may not enter into an agreement providing for a physical delivery when book-entry settlement is required under the automated clearance rules, as this would result in a violation of the automated clearance rules.[9]

Need for Education of Customers on Benefits of Registered Securities

Dealers should begin planning as soon as possible any internal or operational changes that may be needed to comply with the amendments. The Depository Trust Company (DTC) has announced plans for a full-scale program of converting interchangeable securities now held in bearer form to registered form beginning on September 18, 1988.[10] When possible, DTC plans to retain a small supply of bearer certificates in interchangeable issues to accommodate withdrawal requests for bearer certificates.[11] The general effect of the amendments and DTC's policy, however, will make it difficult for dealers, in certain cases, to ensure that their customers will receive bearer certificates. Dealers should educate customers who now prefer bearer certificates on the call notification and interest payment benefits offered by registered certificates and dealer safekeeping and advise them when it is unlikely that bearer certificates can be obtained in a particular transaction. Dealers safekeeping municipal securities through DTC on behalf of such customers also may wish to review with those customers DTC's new arrangements for interchangeable securities.

August 10, 1988

Text of Amendments*

Rule G-12. Uniform Practice

(a) through (b) No change.
(c) *Dealer Confirmations.*
(i) through (v) No change.
(vi) In addition to the information required by paragraph (v) above, each confirmation shall contain the following information, if applicable:
(A) No change.
(B) if the securities are ~~"fully registered," "registered as to the principal only," or~~ available only in book-entry form, a designation to such effect;
(C) through (I) No change.
(d) No change.
(e) *Delivery of Securities.* The following provisions shall, unless otherwise agreed by the parties, govern the delivery of securi-

[3] Rule G-17, on fair dealing, requires dealers to disclose all material facts about a transaction to a customer at or before the time of trade. In many cases, the conversion fee is as much as $15 for each bearer certificate. The Board also has been made aware of some cases in which the transfer agent must obtain new printing plates or print new bearer certificates to effect a conversion. The conversion costs then may be in excess of several hundred or a thousand dollars. Therefore, it is important that the customer be aware of the amount of the conversion costs prior to agreeing to pay for them.
[4] This rule requires that, in addition to any other information required on the confirmation, the dealer must include "such other information as may be necessary to ensure that the parties agree on the details of the transaction."
[5] Rule G-15(a)(i)(I) requires the yield of a customer transaction to be shown on the confirmation.
[6] Some customers, for example, may ask dealers to convert registered securities to bearer form even though the customers also may be willing to accept registered certificates if this is more economical.
[7] Rule G-12(f)(ii) requires book-entry settlement of an inter-dealer municipal securities transaction if both dealers (or their clearing agents for the transaction) are members of a depository making the securities eligible and the transaction is compared through a registered securities clearing agency. Rule G-15(d)(iii) requires book-entry settlement of a customer transaction if the dealer grants delivery versus payment or receipt versus payment privileges on the transaction and both the dealer and the customer (or their clearing agents for the transaction) are members of a depository making the securities eligible.
[8] These rules require that, in addition to the other information required on inter-dealer and customer confirmations, confirmations must include "such other information as may be necessary to ensure that the parties agree to the details of the transaction."
[9] Of course, dealers may withdraw physical certificates from a depository once a book-entry delivery is accepted.
[10] DTC expects this conversion process to take approximately two years. Midwest Securities Trust Company and The Philadelphia Depository Trust Company have not yet announced their plans with regard to interchangeable securities.
[11] DTC *Notice to Participants on Plans for Comprehensive Conversion of Interchangeable Municipal Bonds to the Registered Form* (August 10, 1988).
* Underlining indicates new language; strike-through indicates deletions.

ties:

(i) through (v) No change.

(vi) *Form of Securities.*

(A) *Bearer and Registered Form.* Delivery of securities which are issuable in both bearer and registered form ~~shall~~ may be in bearer form unless otherwise agreed by the parties; *provided, however,* that delivery of securities which are required to be in registered form in order for interest thereon to be exempt from Federal income taxation shall be in registered form.

(B) No change.

(vii) through (xvi) No change.

(f) No change.

(g) *Rejections and Reclamations.*

(i) through (ii) No change.

(iii) *Basis for Reclamation and Time Limits.* A reclamation may be made by the receiving party or a demand for reclamation may be made by the delivering party if, subsequent to delivery, information is discovered which, if known at the time of the delivery, would have caused the delivery not to constitute good delivery, provided such reclamation or demand for reclamation is made within the following time limits:

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

(1) through (3) No change.

~~(4) not good delivery because securities (which are issuable in both bearer and registered form) were delivered in registered form and were not identified as such at the time of trade.~~

(B) through (D) No change.

(iv) through (vi) No change.

(h) through (*l*) No change.

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

(a) *Customer Confirmations.*

(i) through (ii) No change.

(iii) In addition to the information required by paragraphs (i) and (ii) above, each confirmation to a customer shall contain the following information, if applicable:

(A) No change.

(B) if the securities are ~~"fully registered," "registered as to principal only," or~~ available only in book-entry form, a designation to such effect;

(C) through (J) No change.

(iv) through (ix) No change.

(b) No change.

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

(i) through (iii) No change.

(iv) *Form of Securities.*

(A) *Bearer and Registered Form.* Delivery of securities which are issuable in both bearer and registered form ~~shall~~ may be in bearer form unless otherwise agreed by the parties; *provided, however,* that delivery of securities which are required to be in registered form in order for interest thereon to be exempt from Federal income taxation shall be in registered form.

(B) No change.

(v) through (xii) No change.

(d) through (e) No change.

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Letters on Escrowed-to-Maturity Securities

The Board reprints its letter to the SEC regarding escrowed-to-maturity securities and the SEC's response.

Letter from the Board to the SEC

September 18, 1987

Honorable David S. Ruder
Chairman
Securities and Exchange
Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Optional Redemption of Escrowed-to-Maturity Securities

Dear Chariman Ruder:

The Municipal Securities Rulemaking Board (Board) is concerned about confusion in the municipal securities market concerning issuers' authority to exercise optional redemption features of escrowed-to-maturity municipal securities. As discussed below, this confusion has caused considerable disruption in the municipal securities market for escrowed-to-maturity securities which may cause harm to investors and which requires Commission intervention.

Escrowed-to-Maturity Refunding

An outstanding issue of municipal securities is described as "escrowed-to-maturity" when it is refinanced by a new issue of refunding securities, the proceeds of which are invested in other securities[1] that are deposited in an escrow account in an amount sufficient to pay the principal and interest of the refunded (*i.e.*, refinanced issue of) securities on the original interest payment and maturity dates.[2] Since bondholders receive payments derived solely from the escrowed securities, the issuer "defeases" the refunded issue thereby terminating the rights of bondholders under the original indenture and their lien on revenues derived from the refunded issue.[3] The refunded bonds are no longer considered outstanding by the issuer and its financial statements are adjusted accordingly. The issuer's refunding resolution and the escrow agreement contain the details of the refunding arrangements. These documents are not routinely provided to holders of the escrowed-to-maturity securities. The official statement for the refunding issue, however, generally summarizes these documents, and the documents usually are available to interested persons from bond counsel or the underwriters of the refunding issue on request.

Confusion over Status of Escrowed-to-Maturity Securities and Responses of MSRB and Industry Groups

In late 1986, a municipal issuer announced its intention to redeem high-coupon escrowed-to-maturity securities prior to their maturity dates. The announced refunding, which subsequently was withdrawn, raised a number of legal and policy issues including whether investors were aware of the possibility of the early call. Apparently, the escrow and refunding documents stated that the securities would be paid according to a payment schedule that did not include the optional call date. As a result, the market had been pricing at a substantial premium the escrowed-to-maturity securities to maturity; the proposed transaction would have shortened the maturity date and resulted in a significant drop in price creating immediate losses to bondholders of the issue. The Board understands that there have been other recent instances in which issuers have sought to call escrowed-to-maturity securities prior to their maturity dates. These incidents have created ongoing confusion whether other escrowed-to-maturity issues of municipal securities might be subject to earlier calls and has engendered

[1] The proceeds usually are invested in United States Government or federal agency securities.

[2] In some escrowed-to-maturity issues, the issuer preserves sinking fund call features. This fact usually is clearly disclosed and industry practice has been to describe these securities as both "escrowed-to-maturity" and "callable."
When an issue is refunded to a call date, the call date becomes the maturity date for the refunded issue. These issues are described as "prerefunded to (the call date)."

[3] The escrow arrangements must be irrevocable in order to defease the refunded issue.

considerable pricing inefficiencies which may cause harm to investors.

On February 6, 1987, the Executive Committee of the Public Securities Association's (PSA) Municipal Securities Division unanimously adopted a resolution urging issuers not to call escrowed-to-maturity issues unless the refunding documents clearly reserve the right to do so. The PSA referred to the long-standing definition of escrowed-to-maturity and stated that the attempt to call escrowed-to-maturity securities had severely disrupted pricing of, and trading in, all escrowed-to-maturity securities and predicted that investor confidence in the municipal securities market would be damaged.

On March 17, the Board sent letters to the PSA, the Government Finance Officers Association (GFOA), and the National Association of Bond Lawyers stating that it is essential that issuers note in official statements for refunding issues and in defeasance notices whether they are reserving the right to call escrowed-to-maturity securities. The Board stated that the absence of such disclosure would raise concerns whether the issuer's disclosure documents adequately explain the material features of the issue. In addition, while the Board has no regulatory authority over issuers, at its July 1987 meeting, it interpreted rule G-17, the Board's fair dealing rule, to require a dealer that assists an issuer in preparing disclosure documents relating to escrowed-to-maturity securities to alert the issuer of the need to disclose whether it has reserved the right to call the securities prior to maturity. The Board also interpreted its confirmation rules, rules G-12(c) and G-15(a), to permit securities to be described as escrowed-to-maturity only when no optional call features have been reserved.

In response to the Board's March 17, letter, the GFOA incorporated into its draft revisions of the *Guidelines for the Timely Provision of Information on a Continuing Basis* a recommendation that issuers make adequate disclosure in this area and provide the disclosures to holders of the refunded securities.

Need for Commission Action

The actions taken by the Board and industry groups do not appear to be sufficient to allay confusion whether outstanding escrowed-to-maturity issues of municipal securities are subject to early redemption. There continues to be pricing inefficiencies, and many issues are being described as callable in the absence of any express disclosure by the issuer. This has lead to many disputes between dealers and customers. The Board is concerned that this issue is having a deleterious effect on investor confidence in the municipal securities market and believes that Commission intervention is necessary. Accordingly, the Board respectfully requests the Commission to issue an interpretative notice addressing the application of the anti-fraud provisions, Section 10(b) of the Securities Exchange Act, and rule 10b-5 thereunder, to dicslosure by issuers in escrow agreements and other refunding documents pertaining to optional call features of escrowed-to-maturity municipal securities.

If the Board or its staff can be of any assistance in the Commission's consideration of this request, please do not hesitate to contact Angela Desmond, General Counsel for the Board.

Sincerely,

H. Keith Brunnemer, Jr.
Chairman

Letter from the SEC to the Board

June 24, 1988

H. Keith Brunnemer, Jr.
Chairman
Municipal Securities Rulemaking Board
1818 N Street, N.W.
Suite 800
Washington, DC 20036-2491

Dear Mr. Brunnemer:

Chairman Ruder has asked that I respond to your letter of September 18, 1987 regarding the optional redemption of escrowed-to-maturity securities. Your letter reflects the concern of the Municipal Securities Rulemaking Board (Board) and others members of the securities industry about problems that have occurred in the secondary market for municipal securities subject to advance refunding.

As your letter explains, advance refunding is a device commonly used by states, municipalities and other political subdivisions. Municipal securities are frequently issued with fixed maturities, but also allow the municipal issuer to exercise early call provisions that are clearly disclosed in the official statements provided to investors and in the indenture of trust. When municipal bonds are advanced refunded, the issuer will offer refunding bonds to the public. The proceeds of the refunding bond offering are generally used to purchase government securities or certificates of deposit that are placed in an irrevocable escrow account, or trust, in an amount sufficient to pay both principal and interest on the prior bond issue. Bondholders of the prior bond issue then receive payments solely from income generated by the securities placed in the escrow account or trust. The agreement between the municipal issuer and the trustee for the prior bond issue sets the terms of the refunding, specifying payment schedules for the prior bonds and providing for any substitution of securities.

Once bonds have been advance refunded, the market determines the yield based upon the stated interest rate to a fixed point in time. Where bonds are labeled by municipal securities dealers as "escrowed-to-maturity," the market prices the securities based on the assumption that bondholder will be paid interest and principal on the original interest payment and maturity dates. In contrast, where the securities have been

labeled "pre-refunded to a call date," the market will price the securities on the assumption that they will be redeemed on the call date. In some cases, however, you note that sinking fund call features maintained in the escrow trust agreement may result in refunded bonds being both "escrowed-to-maturity" and "callable."

As the Commission has noted in the past, yield is perhaps the single most important piece of information to an investor in debt securities.[1] The yield, or dollar price, at which a transaction in a debt security is effected in the secondary market will be directly related to the anticipated maturity or call date. Thus, any features that cause a fixed coupon debt security to pay at a different time than expected will alter the actual yield that investors receive.

You indicate that recently some confusion has developed in the markets for municipal securities as a result of attempts by certain issuers to exercise optional redemption provisions in bonds that have been traded as escrowed-to-maturity. Investors purchasing such bonds anticipate receiving yields based upon the bonds being redeemed at the maturity indicated by the dealer. As you note in your letter, Rule G-17 has been interpreted by the Board to require a dealer that assists an issuer of a refunding bond offering in preparing disclosure documents to alert the issuer of the need to disclose whether it has reserved the right to call the prior bonds before maturity. In addition, the Board has interpreted its confirmation rules, Rules G-12(c) and G-15(a), to permit securities to be described as escrowed-to-maturity only when no optional redemption features have been reserved.

The Commission has repeatedly emphasized that a broker-dealer who recommends a security represents that it has conducted a reasonable investigation.[2] The obligation of a broker-dealer to be familiar with the securities in its inventory extends to municipal as well as corporate securities.[3]

In light of the recent problems experienced in the municipal securities industry, dealers in municipal securities should be particularly attuned to their responsibilities under the general anti-fraud provisions of the federal securities laws. Before a security is sold as "escrowed-to-maturity" or "pre-refunded to first call," the dealer should have conducted a reasonable investigation to satisfy itself that the documents relating to the prior bond issue and the refunding bond issue, including the official statement and escrow trust agreement, support such characterization. The staff recognizes that provisions of the refunding bond documents relating to prior bond issues may be unclear in some cases. Where there is a lack of clarity, dealers should disclose this fact to their customers, along with other material information about the bonds. Where information is material, the anti-fraud provisions of the federal securities laws require that the investor be informed at the time he or she makes an investment decision.

In addition, it is important that the underwriters of the refunding bond issue, as well as the issuer, and attorneys drafting the bond documents, take special care to clarify the status of the prior bonds that are being refunded. Where either the issuer or underwrtier makes a statement about the prior bonds, there is an obligation to speak accurately. While special considerations are relevant in the municipal markets, the obligation of the issuer is particularly acute in referring to prior bonds in the refunding bond documents, since the market may be expected to rely upon the issuer's statements.

The presence or absence of optional redemption provisions is a material factor that may directly affect the yield received by investors in the prior bonds. When bonds have been subject to advance refunding, and the proceeds of the refunding bond offering are deposited in an escrow account in an amount sufficient to make scheduled interest payments and to redeem the prior bonds at maturity, it would be misleading for the issuer to reserve optional redemption rights without disclosing this fact.[4] A municipal issuer that wishes to reserve its contractual right to exercise optional redemption provisions in the prior bonds should clearly and conspicuously disclose its intention in the defeasance notices and official statement for the refunding bonds.

I hope that this letter clarifies our view of the issue presented in your letter. If you have any further questions in this regard, you may also contact Robert L.D. Colby or Edward L. Pittman at (202) 272-2848.

Sincerely,

Richard Ketchum
Director

[1] Securities Exchange Act Release No. 19687 (April 18, 1983).

[2] *See, e.g., In re Nasser & Co., Inc., et al.*, Securities Exchange Act Release No. 15347 (Nov. 22, 1978), *aff'd without opinion*, (D.C. Cir. 1979); *In re Merrill Lynch Pierce Fenner & Smith, Inc.* Securities Exhcange Act Release No. 14149 (Nov. 9, 1977).

[3] *See, e.g., In re Blumfield*, Securities Exchange Act Release No. 16433 (Dec. 19, 1979); *In re Walston & Co. Inc. and Harrington* Securities Exchange Act Release No. 8165 (Sept. 22, 1967).

[4] *Compare, Harris v. Union Electric Company*, 787 F.2d 355, 362-366 (8th Cir.) *cert. denied*, ___ U.S. ___ (1986) (holding that an issuer who attempted to call bonds that were initially sold and traded on the basis of apparent call protection had violated Rule 10b-5 of the Exchange Act).

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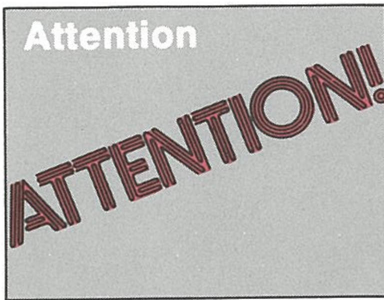

Route to:

- [X] Manager, Muni Dept.
- [X] Underwriting
- [ ] Trading
- [ ] Sales
- [ ] Operations
- [X] Public Finance
- [X] Compliance
- [ ] Training
- [ ] Other ____________

Providing Blue Sky Information on New Issue Securities

A number of states have adopted or are considering adoption of presale requirements for new issue municipal securities. The Blue Sky Survey which reviews how a new issue will be treated under state securities laws, including whether any state registration or filing requirements apply and which of these requirements have been or will be met, contains critical information for dealers preparing to sell an issue. The Board understands that in negotiated issues the senior syndicate manager usually circulates a copy of the Preliminary Blue Sky Survey to syndicate members when the underwriting documents, including the preliminary official statement, are distributed. Because the information included in such surveys pertains to the legality of selling the municipal securities in each state, it would be appropriate for a senior syndicate manager to ensure that this information is distributed as early as possible and, at a minimum for negotiated issues, when any preliminary offering documents are first distributed. The Board reminds syndicate managers that review of Blue Sky requirements in competitive issues also is necessary to ensure that, if the syndicate is awarded the issue, sales by syndicate members will be made in accordance with state law.

In addition, it would be prudent for syndicate managers in both negotiated and competitive issues to include in wire communications with syndicate members and other dealers summary Blue Sky information, and supplemental information regarding actions taken to qualify the issue in certain states after the date of the Preliminary Blue Sky Survey, to ensure adequate dissemination of this important information.

July 25, 1988

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

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 1988 .... $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.
1988 .... 5 copies per year .... no charge
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.
Bi/tri-monthly .... 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.
1987 .... 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

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Arbitration Information and Rules	no charge		
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