

# MSRB REPORTS

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Municipal Securities Rulemaking Board

February 1982

## Selection Process Started for New Board Members

The Municipal Securities Rulemaking Board has begun the process of selecting five new Board members to serve 3-year terms beginning on October 1, 1982. At its December meeting, the Board appointed the 1982 Nominating Committee, consisting of the five outgoing Board members and six non-Board members, two each representing banks, securities firms and the public. The list of those serving on the 1982 Nominating Committee can be found on page 5 of this issue.

I urge you, whether you are a member of the industry or someone from the general public, to contact any member of the 1982 Nominating Committee with thoughts on the type of persons or suggestions of qualified individuals who should be considered for membership on the MSRB. The Board must fill positions for two representatives of bank dealers, two representatives of securities firms, and one representative of the public.

This is your opportunity to play a part in choosing the people that will guide our industry in the future. Information on how to propose candidates may be found on page 7 of this issue.

### Lawrence H. Brown

Chairman  
1982 Nominating Committee  
Senior Vice President  
The Northern Trust Company

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## February-June

- March 15—Cut-off date on recommendations for candidates for membership on the Board
- March 15—Comments due on "Specific Identification of Municipal Securities" issue
- March 15—Comments due on exposure draft of Rule G-34 on CUSIP numbers
- June 7 —Effective Date of new rule G-33 on calculations
- Pending —SEC approval of amendments to:
  - Rule G-12 (facilitating clearing through registered clearing agencies)
  - Rule G-12 (concerning the fungibility of municipal securities for delivery purposes)

Questions & Answers

Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other \_\_\_\_\_

## Rule G-11

### Amendments to Syndicate Practices Rule

**Q:** Have the recently approved amendments to rule G-11 changed the rule in any significant respect?

**A:** Yes. The amendments revise the requirements concerning the disclosure of order information which must be provided by dealers submitting orders to the syndicate, and modify the kind of information which the syndicate manager must provide to syndicate members both before and at the time of final settlement.

**Q:** What are the changes affecting the kind of information dealers must provide to the manager when submitting orders to the syndicate?

**A:** First, a dealer which is **not** a member of the syndicate is no longer required to disclose whether orders which it submits are for its dealer account, or for the account of its related portfolio, municipal securities investment trust, or accumulation account established in connection with such a municipal securities investment trust. Syndicate members who submit orders for their related portfolios, municipal securities investment trusts, or accumulation accounts are still required to identify the accounts for which they are submitting their orders. In addition, if a non-member dealer submits an order for the related portfolio, municipal securities investment trust, or accumulation account of a syndicate member, the identity of the account for which the order is submitted must be disclosed.

**Q:** Have the amendments changed any requirements relating to the disclosure made by a member submitting a group order?

**A:** No. Any dealer submitting a group order must continue to identify the customer's name to the syndicate manager.

**Q:** What are the changes affecting the kind of information syndicate managers are required to provide to syndicate members?

**A:** Syndicate managers are no longer required to disclose to members any information concerning related portfolio, municipal securities investment trust, accumulation account, or group orders placed to which bonds have **not** been allocated. With regard to such orders placed to which bonds **have** been allocated, the manager must

provide in all cases certain specific information. The manager must disclose, in writing, 1) the identities of members' related portfolio, municipal securities investment trust or accumulation accounts to which bonds have been allocated, as well as the aggregate par value and maturity date of each maturity so allocated, and 2) the identity of each person for whom a group order was submitted to which securities have been allocated, as well as the aggregate par value and maturity date of each maturity so allocated. (Previously, the manager was required to provide this information only if a member specifically requested it.) In addition, syndicate managers are required to furnish a summary statement showing the total allocation of bonds to each priority category of orders through the end of the order period.

**Q:** How soon must this information be provided?

**A:** The syndicate manager must provide each type of information described, in writing, within 10 days from the date of sale.

**Q:** Must this information be furnished in any particular form?

**A:** No, but the Board has suggested that it might be convenient for syndicate members to include all of this 10-day information in the customary "release letter." A suggested format is included in the CCH *MSRB Manual*, ¶ 10,185 at page 10,645.

**Q:** Is further disclosure required at final settlement?

**A:** Yes. In addition to itemizing syndicate expenses, the manager is now required to furnish members with a statement showing the aggregate par values and prices (expressed in terms of dollar prices or yields) of all securities sold from the account.

**Q:** How long does the manager have to settle the account and provide this information?

**A:** Under rule G-12(j), settlement of the account must take place within 60 days of delivery of all of the securities to syndicate members.

**Q:** Are the disclosures required to be made by the syndicate manager also required to be provided to members of a selling group, if one is formed?

**A:** No, only to members of the underwriting syndicate.

**Q:** What is the effective date of these changes in rule G-11?

**A:** The amendments apply to all new issue underwritings contracted on or after October 13, 1981.

**Attention****Route To:**

- Manager, Muni. Dept.**  
 **Underwriting**  
 **Trading**  
 **Sales**  
 **Operations**  
 **Compliance**  
 **Training**  
 **Other\_\_\_\_\_**

## 1982 Nominating Committee

The Board has begun the process of selecting five new Board members to serve 3-year terms beginning on October 1, 1982. At its December meeting, the Board appointed the 1982 Nominating Committee, consisting of the five outgoing Board members and six non-Board members, two each representing banks, securities firms and the public. The following is a list of those individuals serving on the 1982 Nominating Committee.

**Board Members**

Alan C. Arnold  
Executive Vice President  
Howard, Weil, Labouisse, Friedrichs, Inc.  
211 Carondelet Street  
New Orleans, Louisiana 70130  
(504) 588-2711

Lawrence H. Brown  
Senior Vice President  
The Northern Trust Company  
50 South LaSalle Street  
Chicago, Illinois 60675  
(312) 630-6000

Richard M. Leach  
Senior Vice President  
The First National Bank of Boston  
100 Federal Street  
Boston, Massachusetts 02110  
(617) 434-4800

Donald J. Robinson  
Hawkins, Delafield & Wood  
67 Wall Street  
New York, New York 10005  
(212) 820-9375

D.V. Steenson  
Senior Vice President  
Piper, Jaffray & Hopwood, Inc.  
800 Multifoods Building  
Minneapolis, Minnesota 55402  
(612) 371-6111

**Non-Board Members**

Robert J. Butler  
Vice President  
Kemper Financial Services, Inc.  
120 South LaSalle Street  
Chicago, Illinois 60603  
(312) 781-1121

Harold W. Clark  
President  
The Cherokee Securities Company  
95 White Bridge Road  
P.O. Box 50433  
Nashville, Tennessee 37205  
(615) 352-2411

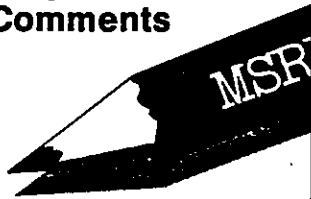
Larry F. Clyde  
Executive Vice President  
Crocker National Bank  
1 Montgomery Street  
P.O. Box 38006  
San Francisco, California 94138  
(415) 477-3128

Richard P. Patterson  
Senior Vice President and Manager  
First National Bank in Dallas  
P.O. Box 83765  
Dallas, Texas 75283  
(214) 744-8171

Richard R. West, Dean  
Amos Tuck School of Business Administration  
Dartmouth College  
Hanover, New Hampshire 03755  
(603) 646-2460

Everett D. Williams  
Stone & Youngberg  
One California Street  
San Francisco, California 94111  
(415) 981-1314

**Lawrence H. Brown**  
**Chairman**

**Request For  
Comments****Route To:**

- Manager, Muni. Dept.**
- Underwriting**
- Trading**
- Sales**
- Operations**
- Compliance**
- Training**
- Other** \_\_\_\_\_

# Nominations to the Board

## Request for Recommendations of Individuals for Membership on the Municipal Securities Rulemaking Board

The Nominating Committee for 1982 established by the Board hereby invites recommendations of individuals for the five positions on the Board with three-year terms beginning on October 1, 1982.

The Board was established by Congress in 1975 to act as the primary rulemaking body for the municipal securities industry. The Board consists of 15 members—five representatives of bank dealers, five representatives of securities firms, and five public members not associated with any bank dealer or securities firm. In the public category, one member must be representative of issuers and one of investors. The current Board members are listed on page 8.

The positions for which recommendations are requested are those of two securities firm representatives, two bank dealer representatives, and one public member. The Board is required to have equal representation from each category, at all times. Public members may not be associated with a securities firm or bank dealer, whether in an employment capacity or a control relationship as defined in sections 3(a)(18) and 3(a)(32) of the Securities Exchange Act of 1934.

The Nominating Committee asks that those proposing individuals to the Committee be mindful of the need to maintain broad geographic representation on the Board, as well as diversity in the size and type of municipal securities brokers and municipal securities dealers represented.

Recommendations for nominees to the Board should include the following information (preferably on the attached form):

1. The name of the individual recommended, his or her business affiliation, business address and telephone number and home address and telephone number; the category for which the individual is recommended, whether that of bank representative, securities firm representative, or public member.

2. The educational and professional background of the individual recommended.

3. The proposer's name, business address, telephone number, and professional relationship (if any), to the individual recommended:

4. Whether the individual is associated with a broker, dealer, or municipal securities dealer within the meaning of sections 3(a)(18) or 3(a)(32) of the Act.

It should be determined in advance that the person recommended is willing to serve on the Board.

Recommendations should be addressed to Lawrence H. Brown, Chairman, Nominating Committee, c/o Municipal Securities Rulemaking Board, Suite 507, 1150 Connecticut Avenue, N.W., Washington, D.C. 20036, and must be received at that address not later than March 15, 1982. The names of the individuals recommended will be made available upon written request.

By: Alan C. Arnold  
Lawrence H. Brown  
Robert J. Butler  
Harold W. Clark  
Larry F. Clyde  
Richard M. Leach  
Richard P. Patterson  
Donald J. Robinson  
D.V. Steenson  
Richard R. West  
Everett D. Williams  
Nominating Committee

January 15, 1982

**Board Members Whose Terms Expire September 30, 1982**

Alan C. Arnold  
Executive Vice President  
Howard, Weil, Labouisse, Friedrichs, Inc.  
New Orleans, Louisiana

Lawrence H. Brown  
Senior Vice President  
The Northern Trust Company  
Chicago, Illinois

Richard M. Leach  
Senior Vice President  
The First National Bank of Boston  
Boston, Massachusetts

Donald J. Robinson  
Hawkins, Delafield & Wood  
New York, New York

D.V. Steenson  
Senior Vice President and Director  
Piper, Jaffray & Hopwood Incorporated  
Minneapolis, Minnesota

**Board Members Whose Terms Expire September 30, 1983**

Peter Keber, Jr.  
Vice President  
North Carolina National Bank  
Charlotte, North Carolina

Anthony M. Mandolini  
Partner  
Peat, Marwick, Mitchell & Co.  
Chicago, Illinois

Robert M. Rainey, III  
Executive Vice President and Manager Investment Division  
Bank of Oklahoma  
Tulsa, Oklahoma

Roy R. Romer  
State Treasurer  
Denver, Colorado

Jean J. Rousseau  
Managing Director  
Merrill Lynch White Weld Capital Markets Group  
New York, New York

**Board Members Whose Terms Expire September 30, 1984**

Robert P. Beshar  
New York, New York

Bernard R. Bober  
Chairman  
Ehrlich-Bober & Co., Inc.  
New York, New York

Arthur T. Cooke, Jr.  
Bank of America, NT & SA  
San Francisco, California

Mary Des Roches  
Comptroller-Treasurer  
City of Minneapolis  
Minneapolis, Minnesota

Michael D. Vick  
President  
M.B. Vick & Co.  
Chicago, Illinois

1. Individual Recommended: \_\_\_\_\_

Business Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Home Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Telephone Number: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

- Category: Bank representative .....   
Securities firm representative .....   
Public member .....

2. Educational and Professional Background

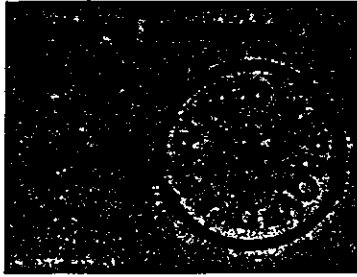
Professional: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Education: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Associations: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Proposer \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Associated person under Securities Exchange Act of 1934.  
\_\_\_\_\_

**Route To:**

- Manager, Muni. Dept.  
 Underwriting  
 Trading  
 Sales  
 Operations  
 Compliance  
 Training  
 Other \_\_\_\_\_

## Rule G-33

### Calculations Rule Approved

Questions or comments concerning the rule may be directed to Donald F. Donahue, Deputy Executive Director.

On December 7, 1981 the Securities and Exchange Commission approved rule G-33 on calculations. Rule G-33 prescribes standard formulas for the computation of accrued interest, dollar price, and yield, and also sets standards of accuracy for computations and establishing day counting methods. The standards of the rule are essentially consistent with current industry practices; the rule does, however, adopt changes to such practices for effectiveness on January 1, 1984. With the exception of such changes, the rule will become effective on June 7, 1982. The text of the rule follows this notice.

The provisions of the rule are summarized below.

\* \* \*

- **A standard formula for calculating accrued interest.**

Rule G-33(a) sets forth a standard method for computing accrued interest on municipal securities transactions, including transactions in securities with "short" or "long" coupons. The formula is consistent with that currently used in the industry.

- **Standard formulas for computing dollar price from yield.** Rule G-33(b)(i) sets forth appropriate formulas for computations of unit dollar prices from yields on transactions in specified types of municipal securities, as follows: (1) municipal securities paying interest at maturity (generally municipal notes), the formula set forth in paragraph (b)(i)(A); (2) periodic-interest municipal securities (generally municipal bonds) with six months or less to maturity, the formula set forth in subparagraph (b)(i)(B)(1); and (3) periodic-interest municipal securities with more than six months to maturity, the formula set forth in subparagraph (b)(i)(B)(2). These formulas are consistent with those currently used by the industry.

The rule permits the use of dollar price interpolation until January 1, 1984, and also permits until January 1, 1984 the use of the dollar price "100," rather than the actual computed result of the formulas, for transactions where the yield price

equals the coupon rate of the securities. This additional time is provided to permit the industry to accomplish necessary changes to the programming of computers and hand calculators used to perform these computations.\*

- **Standard formulas for computing yield from dollar price.** Rule G-33(b)(ii) sets forth appropriate formulas for computations of yields from unit dollar prices on municipal securities transactions. The rule contains specific formulas for such computations on transactions in municipal securities paying interest at maturity, and periodic-interest municipal securities with six months or less to maturity. With respect to periodic-interest municipal securities maturing in more than six months, the rule provides that the formula (set forth in subparagraph (b)(i)(B)(2)) for computing dollar price from yield on such securities shall be used.\*\* These methods are consistent with current industry practice.

- **Standard formulas for computations on discounted securities.** Rule G-33(c) sets forth formulas for the computation of dollar price and return on investment for municipal securities traded on a discounted basis (e.g., municipal "commercial paper"). Such formulas are consistent with those currently used in the industry.

- **Standards for accuracy of computations.** Rule G-33(d) sets forth standards of accuracy for intermediate values and results of computations. The rule provides methods for terminating computed results, specifying that unit dollar prices shall be truncated after three decimal places, and that yields and accrued interest amounts shall be rounded. These standards are consistent with those currently accepted by the industry.

- **Day count computations.** Rule G-33(e) requires that computations shall be made on a "30/360" day count basis, with the exception of computations on transactions in municipal notes, for which the day count method selected by the issuer shall be used. The rule prescribes use of a day counting formula, and sets forth certain assumptions on day counts

\*The Board has currently pending at the Commission an amendment to rule G-12 specifying that money differences on inter-dealer transactions which are attributable to the use of differing calculation methods shall be resolved in favor of the party who performs the dollar price computation in accordance with the requirements of rule G-33 and directly to the settlement date of the transaction.

\*\*Due to the exponential nature of the formula used for periodic-interest securities with maturities of longer than six months and the sheer number of unknown variables it is not possible to compute directly from a dollar price to a yield. The yield must therefore be derived by successive computations of the standard formula for computation of the dollar price using an assumed yield, with incremental adjustments to the assumed yield until the correct dollar price is computed (and the assumed yield is demonstrated to be accurate).

to be made in certain circumstances (e.g., with respect to municipal securities issued and dated on the thirty-first day of a month). These provisions are consistent with current industry practice.

\* \* \*

As noted above, rule G-33 will become effective (except as specified) on June 7, 1982.

**December 18, 1981**

## Text of Rule

### Rule G-33. Calculations

(a) **Accrued Interest.** Accrued interest shall be computed in accordance with the following formula:

$$\text{Interest} = \text{Rate} \times \text{Par Value} \times \frac{\text{Number of Days of Transaction}}{\text{Number of Days in Year}}$$

For purposes of this formula, the "number of days" shall be deemed to be the number of days from the previous interest payment date (from the dated date, in the case of first coupons) up to, but not including, the settlement date. The "number of days" and the "number of days in year" shall be counted in accordance with the requirements of section (e) below.

(b) **Interest-Bearing Securities.**

(i) **Dollar Price.** For transactions in interest-bearing securities effected on the basis of yield the resulting dollar price shall be computed in accordance with the following provisions:

(A) **Securities Paying Interest at Maturity.** Except as otherwise provided in this section (b), the dollar price for a transaction in a security paying interest at maturity shall be computed in accordance with the following formula:

$$P = \left[ \frac{1 + \left( \frac{\text{DIM}}{B} \cdot R \right)}{1 + \left( \frac{\text{DSM}}{B} \cdot Y \right)} \right] - \left[ \frac{A}{B} \cdot R \right]$$

For purposes of this formula the symbols shall be defined as follows:

"A" is the number of accrued days from the beginning of the interest payment period to the settlement date (computed in accordance with the provisions of section (e) below);

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"DIM" is the number of days from the issue date to the maturity date (computed in accordance with the provisions of section (e) below);

"DSM" is the number of days from the settlement date of the transaction to the maturity date (computed in accordance with the provisions of section (e) below);

"P" is the dollar price of the security for each \$100 par value (divided by 100);

"R" is the annual interest rate (expressed as a decimal); and

"Y" is the yield price of the transaction (expressed as a decimal).

(B) **Securities with Periodic Interest Payments.** Except as otherwise provided in this section (b), the dollar price for a transaction in a security with periodic interest payments shall be computed as follows:

(1) for securities with six months or less to maturity, the following formula shall be used:

$$P = \left[ \frac{\frac{RV}{100} + \frac{R}{M}}{1 + \left( \frac{\text{DSM}}{E} \cdot \frac{Y}{M} \right)} \right] - \left[ \frac{A}{B} \cdot R \right]$$

For purposes of this formula the symbols shall be defined as follows:

"A" is the number of accrued days from the beginning of the interest payment period to the settlement date (computed in accordance with the provisions of section (e) below);

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"DSM" is the number of days from the settlement date to the redemption date (computed in accordance with the provisions of section (e) below);

"E" is the number of days in the interest payment period in which the settlement date falls (computed in accordance with the provisions of section (e) below);

"M" is the number of interest payment periods per year standard for the security involved in the transaction;

"P" is the dollar price of the security for each \$100 par value (divided by 100);

"R" is the annual interest rate (expressed as a decimal);

"RV" is the redemption value of the security per \$100 par value; and

"Y" is the yield price of the transaction (expressed as a decimal).

(2) for securities with more than six months to maturity, the following formula shall be used:

$$P = \left[ \frac{RV}{\left(1 + \frac{Y}{2}\right)_{\text{exp}}^{N-1} + \frac{E-A}{E}} \right] + \left[ \sum_{K=1}^N \frac{100 \cdot \frac{R}{2}}{\left(1 + \frac{Y}{2}\right)_{\text{exp}}^{K-1} + \frac{E-A}{E}} \right] - \left[ 100 \cdot \frac{A}{B} \cdot R \right]$$



For purposes of this formula the symbols shall be defined as follows:

"A" is the number of accrued days from the beginning of the interest payment period to the settlement date (computed in accordance with the provisions of section (e) below);

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"E" is the number of days in the interest payment period in which the settlement date falls (computed in accordance with the provisions of section (e) below);

"N" is the number of interest payments (expressed as a whole number) occurring between the settlement date and the redemption date, including the payment on the redemption date;

"P" is the dollar price of the security for each \$100 par value;

"R" is the annual interest rate (expressed as a decimal);

"RV" is the redemption value of the security per \$100 par value; and

"Y" is the yield price of the transaction (expressed as a decimal).

For purposes of this formula the symbol "exp" shall signify that the preceding value shall be raised to the power indicated by the succeeding value; for purposes of this formula the symbol "K" shall signify successively each whole number from "1" to "N" inclusive; for purposes of this formula the symbol "sigma" shall signify that the succeeding term shall be computed for each value "K" and that the results of such computations shall be summed.

(C) *Transactions Where the Yield Equals the Interest Rate.* A transaction in a security with a redemption value of par that is effected on the basis of a yield price equal to the interest rate of the security shall be exempt from the requirements of subparagraph (b)(i)(B) until January 1, 1984.

(D) *Interpolation.* The computation of a dollar price by means of interpolation shall be deemed to be in compliance with this paragraph (b)(i) until January 1, 1984.

(ii) *Yield.* Yields on interest-bearing securities shall be computed in accordance with the following provisions:

(A) *Securities Paying Interest at Maturity.* The yield of a transaction in a security paying interest at maturity shall be computed in accordance with the following formula:

$$Y = \left[ \frac{\left(1 + \left(\frac{DIM}{B} \cdot R\right)\right) - \left(P + \left(\frac{A}{B} \cdot R\right)\right)}{P + \left(\frac{A}{B} \cdot R\right)} \right] \cdot \left[ \frac{B}{DSM} \right]$$

For purposes of this formula the symbols shall be defined as follows:

"A" is the number of accrued days from the beginning of the interest payment period to the settlement date (computed in accordance with the provisions of section (e) below);

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"DIM" is the number of days from the issue date to the maturity date (computed in accordance with the provisions of section (e) below);

"DSM" is the number of days from the settlement date of the transaction to the maturity date (computed in accordance with the provisions of section (e) below);

"P" is the dollar price of the security for each \$100 par value (divided by 100);

"R" is the annual interest rate (expressed as a decimal); and

"Y" is the yield on the investment if the security is held to maturity (expressed as a decimal).

(B) *Securities with Periodic Interest Payments.* The yield of a transaction in a security with periodic interest payments shall be computed as follows:

(1) for securities with six months or less to maturity, the following formula shall be used:

$$Y = \left[ \frac{\left(\frac{RV}{100} + \frac{R}{M}\right) - \left(P + \left(\frac{A}{E} \cdot \frac{R}{M}\right)\right)}{P + \left(\frac{A}{E} \cdot \frac{R}{M}\right)} \right] \cdot \left[ \frac{M \cdot E}{DSM} \right]$$

For purposes of this formula the symbols shall be defined as follows:

"A" is the number of accrued days from the beginning of the interest payment period to the settlement date (computed in accordance with the provisions of section (e) below);

"DSM" is the number of days from the settlement date to the redemption date (computed in accordance with the provisions of section (e) below);

"E" is the number of days in the interest payment period in which the settlement date falls (computed in accordance with the provisions of section (e) below);

"M" is the number of interest payment periods per year standard for the security involved in the transaction;

"P" is the dollar price of the security for each \$100 par value (divided by 100);

"R" is the annual interest rate (expressed as a decimal);

"RV" is the redemption value of the security per \$100 par value; and

"Y" is the yield price of the transaction (expressed as a decimal).

(2) for securities with more than six months to maturity, the formula set forth in item (2) of subparagraph (b)(i)(B) shall be used.

(c) *Discounted Securities.*

(i) *Dollar Price.* For transactions in discounted securities, the dollar price shall be computed in accordance with the following provisions:

(A) The dollar price of a discounted security, other than a discounted security traded on a yield-equivalent basis, shall be computed in accordance with the following formula:

$$P = \left[ RV \right] - \left[ DR \cdot RV \cdot \frac{DSM}{B} \right]$$

For purposes of this formula the symbols shall be defined as follows:

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"DR" is the discount rate (expressed as a decimal);

"DSM" is the number of days from the settlement date of the transaction to the maturity date (computed in accordance with the provisions of section (e) below);

"P" is the dollar price of the security for each \$100 par value; and

"RV" is the redemption value of the security per \$100 par value.

(B) The dollar price of a discounted security traded on a yield-equivalent basis shall be computed in accordance with the formula set forth in subparagraph (b)(i)(A).

(ii) *Return on Investment.* The return on investment for a discounted security shall be computed in accordance with the following provisions:

(A) The return on investment for a discounted security, other than a discounted security traded on a yield-equivalent basis, shall be computed in accordance with the following formula:

$$IR = \left[ \frac{RV - P}{P} \right] \cdot \left[ \frac{B}{DSM} \right]$$

For purposes of this formula the symbols shall be defined as follows:

"B" is the number of days in the year (computed in accordance with the provisions of section (e) below);

"DSM" is the number of days from the settlement date of the transaction to the maturity date (computed in accordance with the provisions of section (e) below);

"IR" is the annual return on investment if the security is held to maturity (expressed as a decimal);

"P" is the dollar price of the security for each \$100 par value; and

"RV" is the redemption value of the security per \$100 par value.

(B) The yield of a discounted security traded on a yield-equivalent basis shall be computed in accordance with the formula set forth in subparagraph (b)(ii)(A).

(d) Standards of Accuracy; Truncation.

(i) *Intermediate Values.* All values used in computations of accrued interest, yield, and dollar price shall be computed to not less than ten decimal places.

(ii) *Results of Computations.* Results of computations shall be presented in accordance with the following:

(A) Accrued interest shall be truncated to three decimal places, and rounded to two decimal places immediately prior to presentation of total accrued interest amount on the confirmation;

(B) Dollar prices shall be truncated to three decimal places immediately prior to presentation of dollar price on the confirmation and computation of extended principal; and

(C) Yields shall be truncated to four decimal places, and rounded to three decimal places, provided, however, that for purposes of confirmation display as required under rule G-15(a)(viii)(B) yields accurate to the nearest .05 percentage points shall be deemed satisfactory.

Numbers shall be rounded, where required, in the following manner: if the last digit after truncation is five or above, the preceding digit shall be increased to the next highest number, and the last digit shall be discarded.

(e) Day Counting.

(i) *Day Count Basis.* Computations under the requirements of this rule shall be made on the basis of a thirty-day month and a three-hundred-sixty-day year, or, in the case of computations on municipal notes, on the day count basis selected by the issuer of the securities.

(ii) *Day Count Formula.* Computations of day counts for purposes of this rule shall be made in accordance with the following formula:

$$\text{Number of Days} = (Y2 - Y1) 360 + (M2 - M1) 30 + (D2 - D1)$$

For purposes of this formula the symbols shall be defined as follows:

"M1" is the month of the date on which the computation period begins;

"D1" is the day of the date on which the computation period begins;

"Y1" is the year of the date on which the computation period begins;

"M2" is the month of the date on which the computation period ends;

"D2" is the day of the date on which the computation period ends; and

"Y2" is the year of the date on which the computation period ends.

For purposes of this formula, if the symbol "D2" has a value of "31", and the symbol "D1" has a value of "30" or "31", the value of the symbol "D2" shall be changed to "30". If the symbol "D1" has a value of "31", and the symbol "D2" has a value other than "31", the value of the symbol "D1" shall be changed to "30." For purposes of this rule time periods shall be computed to include the day specified in the rule for the beginning of the period but not to include the day specified for the end of the period.

(f) Effectiveness. The requirements of this rule shall become effective on June 7, 1982, except as provided in subparagraphs (C) and (D) of paragraph (b)(i).

**Attention**

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**Qualifications**

**Procedures for Administration of Municipal Securities Representative and Municipal Securities Principal Qualification Examinations**

On February 1, 1982, the Board will shift the method of administering the Municipal Securities Representative Qualification Examination (the "Representative examination") from the present written format to a computerized format utilizing the PLATO automated system of the Control Data Education Company. **THERE WILL BE NO CHANGE TO THE REPRESENTATIVE EXAMINATION SPECIFICATIONS, SUBJECT MATTER OR QUESTION FORMAT.** Since the Board's Municipal Securities Principal Qualification Examination (the "Principal examination") is presently being administered on the PLATO system, this Notice will set forth both the procedure to be followed by candidates applying for the Representative examination during the changeover from written format, and will also review the procedure for administration of both examinations on the PLATO system.

1982, the candidate will be issued an admission ticket for the written administration of the examination. If the candidate's application form is **RECEIVED** by the NASD after January 15, 1982, the candidate will be enrolled for testing on the PLATO system and a confirmation notice to this effect will be forwarded to the securities firm or bank dealer sponsoring the candidate.

Candidates holding valid admission tickets for the written administration of the examination may choose to use this ticket and sit for the written administration of the examination scheduled for Saturday, February 20, 1982. In this case, the candidates must follow the customary procedure of telephoning the Examinations Department of the NASD [telephone number (202 833-7187)] for an appointment. This must be done not later than the eighth business day preceding the date of administration of the examination (*i.e.*, February 10, 1982). The person making the reservation will be required to specify the name and social security number of the candidate, the securities firm or bank dealer sponsoring the candidate, and the test center location desired. The February 20 administration will be the final scheduled written administration of the Representative examination.

The alternate course of action for candidates holding admission tickets for the written administration of the examination (and the only one available to such candidates if they are unable to sit for the February 20 written administration) is to return the tickets to the NASD and request enrollment on PLATO for the examination. The tickets and a letter of explanation should be forwarded to:

National Association of Securities Dealers, Inc.  
1735 K Street, N.W.  
Washington, D.C. 20006  
Attention: Examinations Section  
Fifth Floor

Upon receipt of the PLATO enrollment confirmation notice, the candidates may telephone a PLATO Learning Center for an appointment to sit for a PLATO administration of the Representative examination.\*

**Section One: Treatment of Applications and Admission Tickets for the Representative Examination During Changeover of Administration Format**

Candidates for the Representative examination will continue to use the examination application forms appropriate to the category of municipal securities broker or dealer with which they are associated (see "Application and Admission" later in this Notice). If a candidate's application form has been **RECEIVED** by the NASD on or prior to January 15,

**Questions regarding the Board's examinations may be addressed to Peter H. Murray, Assistant Executive Director.**

\*This procedure is described in Section Two of this Notice.

## Section Two: PLATO Administration of the Board's Examinations

Under the provisions of section 15B(c)(7)(A) of the Securities Exchange Act of 1934, as amended, the NASD is required to administer the Board's professional qualification examinations for NASD member firm personnel, the federal bank regulatory agencies are required to administer such examinations for bank dealer personnel, and the Commission is required to administer such examinations for SECO firm personnel. The three federal bank regulatory agencies and the Commission have delegated full responsibility for the administration of the Board's examinations to the NASD. The NASD is, therefore, the sole organization administering the Board's examinations, and is responsible for the mailing and processing of all applications for these examinations.

The NASD will administer the Representative examination and the Principal examination using the PLATO automated system of the Control Data Education Company. PLATO is a computer system with remote visual display terminals located in learning centers throughout the United States. The individualized testing capabilities of the PLATO system and the accessibility of PLATO learning centers eliminate the need to administer the examinations on a fixed schedule. After being enrolled on the PLATO system by the NASD, a candidate need only make an appointment at the nearest learning center to sit for the examination. A complete list of learning center locations and telephone numbers will be sent to each candidate upon confirmation of his PLATO system enrollment by the NASD.

Candidates will be given an introductory lesson in the use of the computer terminal at the time they appear for the examination. Procedures to be followed in answering and reviewing test questions are simple, and do not require familiarity with computers or typing ability. Individual questions are presented on the terminal and are answered by touching the terminal screen itself. Candidates will be instructed in the procedure enabling them to review questions during the course of the examination and at the examination's completion.

At the end of the allotted time period for testing, or when the candidate voluntarily terminates a testing session, the computer will score the examination and its component subsections, and display these scores on the terminal. Within two business days after the testing session the NASD will forward a written notification of the candidate's score to his or her sponsoring firm or bank.

### Application and Admission

Candidates for the Representative or Principal examinations will be required to both apply for admission to the examination and make an appointment for the actual examination administration. This section reviews these procedures.

The NASD has sent to all registered municipal securities firms and bank dealers copies of the appropriate application

forms for the examinations. Candidates must submit completed applications together with a \$40 examination application fee to: NASAA/NASD Central Registration Depository, P.O. Box 37441, Washington, D.C. 20013. The appropriate application forms for each category of municipal securities dealer are as follows:

CANDIDATE CATEGORY	APPLICATION FORM(S)
Personnel of NASD-member firms	Uniform Application for Securities Industry Registration U-4
Personnel of Bank Municipal Securities Dealers	Examination Request Form U-64
Personnel of SECO Broker-Dealers	Examination Request Form U-61

Checks are to be made payable to "National Association of Securities Dealers, Inc."; industry members are asked to note that a completed application form and examination fee must be submitted to the NASD for each examination candidate from their organization. Additional forms may be obtained by sending a written request, stating the quantity and form number required, and including a self-addressed mailing label to the NASD, 1735 K Street, N.W., Washington, D.C. 20006, Attention: Office Services.

After receiving a candidate's application and fee the NASD will enroll the candidate on the PLATO system, and send a confirmation notice to the candidate's sponsoring organization. The confirmation notice will identify the candidate, the qualification examination for which the candidate has been enrolled, and the expiration date of the enrollment. PLATO system enrollments will expire 90 calendar days from the date the candidate is enrolled in the system. If a candidate does not sit for the examination during this 90-day period, he may be re-enrolled in the system upon reapplication and payment of another testing fee to the NASD.

The NASD will also send to each enrolled candidate a list of Control Data learning centers and telephone numbers. Control Data learning centers are open weekdays from 8:30 a.m. to 5:30 p.m. The candidate must call the nearest learning center to schedule an appointment to sit for the examination. Appointments will be scheduled within eight business days from the date the appointment request is received by the learning center, unless the candidate requests otherwise. Appointments will not be made for candidates who are not enrolled in the PLATO system or for candidates requesting appointment dates falling after the expiration of their 90-day enrollment period. Candidates who fail to keep scheduled appointments or who cancel appointments within 72 hours prior to the appointment time and date will be subject to a \$15 penalty fee. Further, candidates who are more than 15 minutes late for a scheduled appointment may be denied admission to the learning center, and will be subject to the \$15 penalty fee.

At the time a candidate appears at the learning center for his examination appointment, he must verify his identity by presenting two forms of identification, both of which bear the candidate's signature, and one of which contains a physical description or photo of the candidate. Enrollment confirmation notices need not be presented, and will not satisfy the identification requirement.

Candidates will be required to check briefcases, books, papers, and similar articles with the learning center administrator before being seated at the terminal. Electronic calculators may be used provided that such devices have an independent power source and no tape print mechanisms.

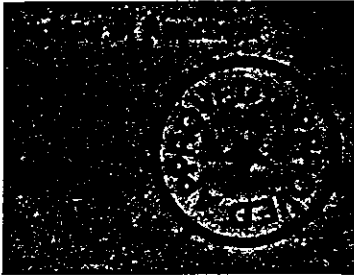
**Exhibits Book**

Certain questions in the Representative examination refer to an Exhibits Book as a reference source to be consulted in order to answer the question posed. Each of these questions

clearly indicates that reference to the Exhibits Book is necessary. Each candidate for the Representative examination will be issued a copy of the Exhibits Book at the learning center after the candidate's identification documents have been verified. The candidate must complete the data required on the cover of the Exhibits Book at the time of issuance\* and return the Book to the learning center administrator at the end of the testing session.

**January 15, 1981**

\*This data is name and social security number of the candidate and the name of the securities firm or bank dealer sponsoring the candidate. This information permits the NASD to control the security of the Exhibits Books.



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# Qualifications

## Qualification Examination For Municipal Securities Sales Supervisors Approved

On December 7, 1981, the Securities and Exchange Commission approved an amendment to Board rule G-3 designating the General Securities Sales Supervisor Qualification Examination (the "Series 8 examination") as the examination for qualification of municipal securities sales principals. Upon approval by the SEC, the Series 8 examination became available for administration.

### Development of the Examination

Following the implementation of the municipal securities principal qualification examination in early 1980, a number of general securities firms expressed concern to the Board and to other self-regulatory organizations regarding the multiple examination requirements applicable to certain persons associated with these firms who supervise only sales activities (e.g., branch office managers). The Board concluded that these concerns were valid, and so joined with the other self-regulatory organizations in the development of a qualification examination for such individuals.\* The Board also amended the definitional provisions of rule G-3 adding a new qualification category (municipal securities sales principal) for these individuals. This new category of municipal securities sales principal applies to persons associated with a municipal securities broker or municipal securities dealer (other than a bank dealer) whose activities, as they relate to municipal securities, are limited to supervision of customer sales and purchases. The Series 8 examination was designed to meet the Board's qualification requirements for municipal securities sales principals as well as the various qualification requirements of the other self-regulatory organizations.

### Description of the Examination

The Series 8 examination is a comprehensive test covering a broad range of material, including the Securities Act of 1933 and the Securities Exchange Act of 1934 and SEC rules thereunder, NYSE and NASD rules, the rules applicable to transactions in options, and rules applying to municipal

securities transactions. Test questions concerning municipal securities regulations will comprise 22.5% of the examination. Since the activities to be permitted persons who qualify by means of this examination are limited in scope, certain Board rules or sections of rules, which were deemed to deal with matters that were beyond the responsibilities permitted to municipal securities sales principals, are not included in the specifications for the Series 8 examination. The examination will focus on rules governing such matters as sales supervision (e.g., rule G-19 on suitability of recommendations, rule G-25 on improper use of assets), account supervision (e.g., rule G-26 on discretionary and other customer accounts, rule G-27 on supervision, rules G-15 on customer confirmations and G-32 on disclosures in connection with new issues), and the operation of the municipal securities markets (e.g., certain aspects of rule G-11 on syndicate practices, rule G-13 on quotations, rule G-18 on execution of transactions, and rule G-30 on prices and commissions). A copy of the full Study Outline for the Series 8 examination is available upon request from the Board's offices.

**Questions regarding the Series 8 examination may be addressed to Peter H. Murray, Assistant Executive Director.**

### Structure and Administration of the Examination

The Series 8 examination will be administered by the NASD on the PLATO System at Control Data Education Company Learning Centers. The examination is divided into two parts of 100 questions each, having an allowed testing time of three hours for each part. Part I is divided into two sections, one section dealing solely with options and a second section dealing only with municipal securities. Part II will cover all the remaining material in the examination. Both parts I and II may be taken in any order on the same day or on any two days during the 90-day period that a candidate's Series 8 PLATO enrollment is valid. Candidates who wish to sit for both parts on the same day must schedule separate appointments for each part. Candidates who wish to take the two parts on separate days must sit for both parts at the same learning center.\*\* Grading of the examination will **NOT** occur until both parts are completed. If a candidate's enrollment period

\*The joint examination was developed by a committee composed of representatives of the general securities industry, and of the participating self-regulatory organizations. The self-regulatory organizations participating in the joint examination are the American Stock Exchange, the Chicago Board of Options Exchange, the Midwest Stock Exchange, the National Association of Securities Dealers, the New York Stock Exchange, the Pacific Stock Exchange, the Philadelphia Stock Exchange, and the Board.

\*\*In extraordinary circumstances arrangements may be made to take the parts at different learning centers, but this must first be cleared through the NASD.

expires before either part is completed, the candidate must initiate anew the usual application procedures, including payment of another testing fee. If a candidate's enrollment period expires after one of the two parts has been completed, the examination will be graded as a failed test and the candidate will be required to reapply for the examination in accordance with standard application procedures.

**Grading and Reexamination Procedure**

In order to pass the Series 8 examination, each candidate must satisfy a dual scoring requirement. A minimum score of 70% must be achieved on the 55 options questions **AND** a minimum score of 70% must be achieved on the remaining

145 questions in the examination. If either or both of these criteria are not met, a candidate will fail the examination. Under this grading scheme, there is no relevance attached to a candidate's overall score on the examination. Candidates who fail one of the two groups of scored questions will fail the examination, but will only be required to retake and pass the failed group in order to qualify. Special reexamination instructions for these situations will be issued at the time the initial written score report is provided to sponsoring firms.

**January 15, 1982**

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## **Rule G-27**

### **Allocation of Supervisory Responsibility Between Municipal Securities Principals and Municipal Securities Sales Principals**

The Board has received questions concerning the appropriate allocation of supervisory responsibility between municipal securities principals and the new category of municipal securities sales principals. The Board recently amended its rule G-3 to permit a person associated with a securities firm whose activities with respect to municipal securities are limited to supervising sales to and purchases from customers to qualify as a "municipal securities sales principal" ("sales principal"). The Board also amended rules G-8 on record-keeping, G-26 on the administration of customer accounts, and G-27 on supervision to permit securities firms to designate sales principals as responsible for certain supervisory functions insofar as they relate directly to transactions in municipal securities with customers.

In particular, rule G-27 concerning supervision requires municipal securities dealers to designate at least one municipal securities principal as responsible for supervising its municipal securities activities, including the municipal securities activities of branch offices or similar locations. In addition, rule G-27 permits the municipal securities dealer to designate a sales principal (e.g., a branch office manager) as responsible for the "direct supervision of sales to and purchases from customers." The rule also requires that a dealer adopt written supervisory procedures which, among other matters, reflect the delegation of supervisory authority to these personnel.

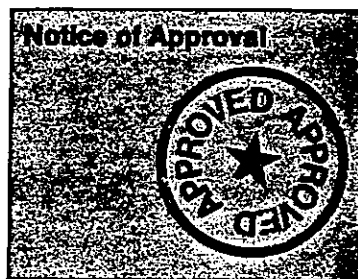
As a result of these amendments, in designating under rule G-27 one or more municipal securities principals as responsible for supervising the business and activities of the firm's associated persons, a securities firm may choose to designate a qualified sales principal with limited responsibility for the direct supervision of sales to and purchases from customers. If so, the firm's written supervisory procedures may allocate responsibility to a sales principal for reviewing and approving (to the extent that they relate to sales to and purchases from customers) the suitability of the opening of, and transactions in, customer accounts, the handling of customer complaints and other correspondence, and other matters permitted by Board rule to be reviewed or approved by a sales principal. A municipal securities principal, however, must be responsible for directly supervising the firm's other municipal securities activities such as underwriting, trading, and pricing of inventories.

With respect to the relationship between a sales principal and the designated municipal securities principal, Board rule G-27 provides that a branch office manager who acts as the sales principal for his office will be responsible for the municipal securities sales activities under his direct supervision. Rule G-27 also provides that a designated municipal securities principal will be responsible for all municipal securities activities of the branch office including those that may be under the direct supervision of a sales principal. However, the branch office manager, under the particular organizational structure of a firm, may be responsible to some other designated supervisor for the discharge of his other duties.

**December 15, 1981**

**Questions regarding the above should be directed to Donald F. Donahue, Deputy Executive Director.**



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## Rule G-12

### Amendment to Verification Procedures Approved

On October 23, 1981 the Securities and Exchange Commission approved an amendment to the provisions of rule G-12 concerning the comparison and verification of inter-dealer transactions. Under the rule as previously in effect, if a municipal securities dealer had confirmed a transaction but had not received a confirmation about the contra-party to the transaction by the fourth business day after the trade date (the sixth business day, in the case of the initial confirmation of a "when as, and if issued" transaction), the confirming dealer was required to follow a "verification" procedure, described in the rule, with respect to the transaction. The amendment approved by the Commission expands the period of time within which this "verification" procedure may be initiated. The amendment provides that, in the event the confirming dealer does not receive a confirmation from the contra-party, the confirming dealer must initiate the "verification" procedure not earlier than the fourth business day after the trade date (the sixth business day, in the case of an initial confirmation of a "when, as and if issued" transaction) nor later than the eighth business day after the trade date.

The text of this provision, as amended, is set forth below.

**October 30, 1981**

Questions concerning this Notice may be directed to Donald F. Donahue, Deputy Executive Director.

Advance copies of this Notice were mailed on November 1, 1981.

### Text of Amendment\*

#### Rule G-12. Uniform Practice

(a) through (c) No change.

(d) Comparison and Verification of Confirmations; Unrecognized Transactions

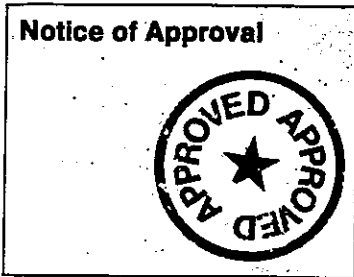
(i) and (ii) No change.

(iii) In the event a party has sent a confirmation of a transaction, but fails to receive a confirmation from the contra-party or a notice indicating nonrecognition of the transaction, the confirming party shall, not earlier than the fourth business day following the trade date (the sixth business day following the trade date, in the case of an initial confirmation of a transaction effected on a "when, as, and if issued" basis) nor later than the eighth business day following the trade date, seek to ascertain whether a trade occurred. If, after such verification, such party believes that a trade occurred, it shall immediately notify the non-confirming party by telephone to such effect and send within one business day thereafter, a written notice, return receipt requested, to the non-confirming party, indicating failure to confirm. Promptly following receipt of telephone notice from the confirming party, the non-confirming party shall seek to ascertain whether a trade occurred and the terms of the trade. In the event the non-confirming party determines that a trade occurred, it shall immediately notify the confirming party by telephone to such effect and, within one business day thereafter, send a written confirmation of the transaction to the confirming party. In the event a party cannot confirm the trade, such party shall promptly send a written notice, return receipt requested, to the confirming party, indicating non-recognition of the transaction.

(iv) through (viii) No change.

(e) through (1) No change.

\*Underlining indicates new language. Language deleted by the amendment has been omitted.



**Route To:**

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## Rule G-12

### Amendment Approved Concerning Resolution of Money Differences

On January 15, 1982 the Securities and Exchange Commission approved for immediate effectiveness an amendment to the "good delivery" provisions of Board rule G-12 on uniform practice. The amendment reflects the recent adoption of Board rule G-33 on calculations, and provides for the appropriate resolution of money differences on transactions in cases where such differences are attributable to the use of different calculation methods.

Rule G-12 sets forth uniform practices to be followed by all municipal securities brokers and municipal securities dealers including standards governing the delivery of securities on municipal securities transactions. Among other matters, the rule establishes a schedule of money differences, and specifies that a delivery on which there is a difference between the contract moneys shown by the selling dealer and the contract moneys known by the purchasing dealer shall be accepted if the difference is less than the applicable amount established in the schedule. The parties to the transaction are required to resolve the money difference and to take steps to ensure that the correct moneys have been paid within ten business days of the delivery date.

On December 7, 1981, the Commission approved Board rule G-33, which prescribes standard formulas for the computation of accrued interest, dollar price, and yield, as well as setting other standards for related calculations areas\*. Among other matters, rule G-33 permits the use of the "interpolation" method of deriving a dollar price from a yield until January 1, 1984. After that time municipal securities brokers and dealers will be required to use the "direct pricing" method; that is, they must compute the dollar price directly to the settlement date of the transaction. In its filing on rule G-33, however, the Board noted that many municipal securities brokers and dealers already compute the dollar price directly to the settlement date of the transaction.

The Board believes that many of the minor money differences and discrepancies on transactions are the result of differences in the computational methods used by the two parties to the transaction. In particular, a significant number of these may result from the use by one party of the "inter-

polation" method of computing a dollar price, and the use by the other party of the "direct pricing" method. While the Board believes that both methods should continue to be permissible at the present time for confirmation processing purposes (so as to permit sufficient time for the necessary computer and calculator reprogramming), the Board is also of the view that the "direct pricing" method is the more correct method, and that the dealer using the "direct pricing" method should be deemed to have the correct calculations. Accordingly, the amendment approved on January 15 provides that, if the money difference on a transaction is due to the use by the two parties of different computational methods, with one party using the "direct pricing" method, and the other party using a different method (including the "interpolation" method permitted until January 1, 1984 under subparagraph (b)(i)(D) of proposed rule G-33), the calculations of the party using the "direct pricing" method shall be deemed accurate for purposes of the reconciliation of the money difference. If the money difference is due to some other reason, the previous provision of the rule, that the calculations of the seller shall be used to determine the amount to be paid, shall continue to apply.

Under the provisions of the rule as amended, therefore, the following procedure applies to deliveries involving money differences:

1. A delivery with a money difference less than the amount specified in the applicable part of the schedule must be accepted. Deliveries with money differences greater than the specified amounts may be rejected.

2. If the purchasing dealer's computations are based on the direct pricing method and the seller's computations utilize another method, with the money difference resulting from this fact, the computations of the purchaser shall determine the amount to be paid on the transaction.

3. In all other circumstances the computations of the seller shall govern the amount to be paid on the transaction.

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

\*At the request of the Board the Commission delayed the effectiveness of the rule for six months, to permit the industry sufficient time to familiarize itself with the rule and its requirements. Rule G-33, therefore, does not become effective until June 7, 1982.

4. In either case, the parties shall reconcile the money difference and send the appropriate payment, if any, not later than ten business days after the original money settlement.

\* \* \* \* \*

The text of the amendment follows.

**January 15, 1982**

**Text of Amendment\***

**Rule G-12. Uniform Practice**

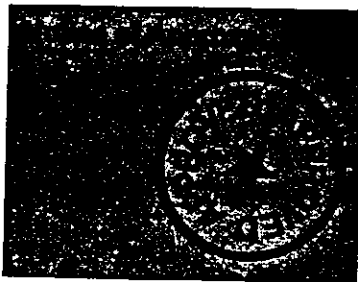
- (a) through (d) No change.
- (e) Delivery of Securities. The following provisions shall, unless otherwise agreed by the parties, govern the delivery of securities:
  - (i) through (xiv) No change.
  - (xv) Money Differences. The following money differences shall not be sufficient to cause rejection of delivery:

Par Value	Maximum Differences Per Transaction
\$ 1,000 to 24,999	\$ 10
25,000 to 99,999	25
100,000 to 249,999	60
250,000 to 999,999	250
1,000,000 and over	500

The calculations of the seller shall be utilized in determining the maximum permissible differences and amount of payment to be made upon delivery. However, if the money difference is due to the computation by one party of the formula required under rule G-33 directly to the settlement date of the transaction, and the use by the other party of another computation method (including the dollar price interpolation method permitted under subparagraph (b)(i)(D) of rule G-33), the calculations of the party computing directly to the settlement date shall be deemed accurate, and payment made in accordance with such calculations. The parties shall seek to reconcile any such money differences within ten business days following settlement.

(f) through (l) No change.

\*Underfining indicates additions.



**Route To:**

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## Rule G-12 and G-15

### Amendments Approved Concerning Transactions in Discounted Securities

On January 15, 1982 the Securities and Exchange Commission approved certain amendments to Board rules G-12 on uniform practice and G-15 on customer confirmations. These amendments establish appropriate confirmation requirements for municipal securities, such as municipal "commercial paper," traded on a discounted basis. The amendments set forth the following requirements:

1. Confirmations of transactions in securities traded on a discounted basis need not show yield and accrued interest information, but must show the rate of discount and, except as described below, the resulting dollar price. The Board is of the view that the rate of discount, rather than the yield, is the appropriate disclosure for such confirmations. The Board notes that this is the price basis on which the transactions are effected, and also that the rate of discount provides a common means of evaluating these investment instruments against the other alternatives with which they are likely to be compared (e.g., corporate commercial paper).

2. Confirmations of transactions in securities traded on a discounted basis may use an alternative method of showing the total transaction dollar amount computation. Normal confirmation practice on municipal securities transactions shows this computation as an addition of the extended principal (the par value multiplied by the dollar price) and the accrued interest to derive the total dollar amount of the transaction. Since there is no accrued interest on a discounted security, the comparable confirmation disclosure would simply show the extended principal (the par value multiplied by the dollar price derived from the rate of discount), which is equal to the total dollar amount of the transaction.

The Board is aware that a somewhat different format for presenting the total dollar amount computation is used for certain discounted municipal securities, as well as for other discounted instruments. This format presents the computation as a subtraction of the total dollar amount of the discount from the par value of the securities to derive the total dollar

amount of the transaction. The Board believes that this method of confirmation presentation is also satisfactory, and, accordingly, the amendments permit the use of this format as an alternative to the former method of confirmation presentation. Confirmations prepared in the latter format need not show the dollar price resulting from the rate of discount, since such dollar price is not used in the computation of the total dollar amount.

3. Confirmations of transactions in discounted securities traded on a yield-equivalent basis must be prepared in accordance with the previously-existing provisions of the rule. In such transactions the rate of discount is converted to its yield equivalent and the transaction is confirmed at this price.\* For this type of transaction the existing confirmation requirements are appropriate and are in accord with the industry's current confirmation practice. Accordingly, the amendments do not apply to this type of transaction, but apply solely to transactions effected on the basis of a rate of discount.

\* \* \* \* \*

The text of the amendments is set forth below. The amendments were effective upon approval by the Commission.

January 15, 1982

Questions or comments concerning these amendments may be directed to Donald F. Donahue, Deputy Executive Director.

### Text of Amendments\*\*

#### Rule G-12. Uniform Practice

- (a) and (b) No change.
- (c) Dealer Confirmations.
  - (i) through (iv) No change.
  - (v) Each confirmation shall contain the following information:
    - (A) through (N) No change.

The confirmation for a transaction in securities traded on a discounted basis (other than discounted securities

\*This method is more commonly used with discounted securities that are more closely comparable to the traditional municipal note.  
\*\*Underlining indicates additions.

traded on a yield-equivalent basis) shall not be required to show the pricing information specified in subparagraph (I) nor the accrued interest specified in subparagraph (K). Such confirmation shall, however, contain the rate of discount and resulting dollar price. Such confirmation may, in lieu of the resulting dollar price and the extended principal amount specified in subparagraph (L), show the total dollar amount of the discount. The initial confirmation for a "when, as and if issued" transaction shall not be required to contain the information specified in subparagraphs (H), (K), (L), and (M)[ of this paragraph ] or the resulting dollar price as specified in subparagraph (I).

(vi) No change.

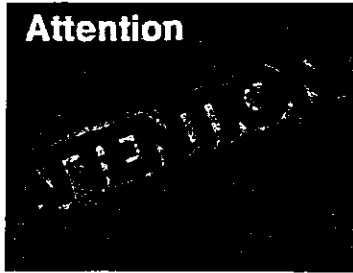
(d) through (I) No change.

**Rule G-15. Customer Confirmations**

(a) through (c) No change.

(d) The confirmation for a transaction in securities traded on a discounted basis (other than discounted securities traded on a yield-equivalent basis) shall not be required to show the yield and dollar price information specified in subparagraph (viii) of paragraph (a) nor the accrued interest specified in subparagraph (ix) of paragraph (a). Such confirmation shall, however, contain the rate of discount and resulting dollar price. Such confirmation may, in lieu of the resulting dollar price and the extended principal amount specified in subparagraph (x) of paragraph (a), show the total dollar amount of the discount.

(d) through (h) renumbered as (e) through (i). No substantive change.



**Route To:**

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
- Operations
- Compliance
- Training
- Other \_\_\_\_\_

# Financial Statements

Fiscal Years Ended September 30,  
1981 and 1980

## Municipal Securities Rulemaking Board

### Balance Sheets September 30, 1981 and 1980

#### ASSETS

	<u>1981</u>	<u>1980</u>
Cash	\$ 1,777	\$ 13,412
Investments (Notes 1 and 2)	493,045	189,346
Assessment fees receivable (Note 1)	155,034	71,032
Accrued interest receivable	7,044	—
Prepaid expenses	7,745	9,653
Other assets	4,091	2,735
Office furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$58,429 in 1981 and \$48,065 in 1980 (Note 1)	<u>28,346</u>	<u>32,195</u>
	<u>\$697,082</u>	<u>\$318,373</u>

#### LIABILITIES AND FUND BALANCE

Accounts payable	\$ 25,464	\$ 17,158
Accrued salaries and vacation pay	<u>20,916</u>	<u>19,866</u>
	46,380	37,024
Commitments (Note 3)		
Fund balance	<u>650,702</u>	<u>281,349</u>
	<u>\$697,082</u>	<u>\$318,373</u>

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

**Municipal Securities Rulemaking Board**

**Statements of Revenues and Expenses and Changes in Fund Balance**

For the years ended September 30, 1981 and 1980

	<u>1981</u>	<u>1980*</u>
Revenues:		
Assessment fees (Note 1)	\$1,257,786	\$ 484,391
Annual fees (Note 1)	178,294	190,202
Initial fees (Note 1)	12,200	15,900
Investment income	48,635	36,833
Board manuals and other	16,018	17,386
	<u>1,512,933</u>	<u>744,712</u>
Expenses:		
Salaries and employee benefits (Note 4)	460,236	431,373
Board and committee	325,153	315,363
Operations (Note 3)	138,663	141,947
Education and communication	166,043	137,432
Professional services	42,508	58,705
Depreciation and amortization (Note 1)	10,977	11,366
	<u>1,143,580</u>	<u>1,096,186</u>
Revenues over (under) expenses	369,353	(351,474)
Fund balance, beginning of year	<u>281,349</u>	<u>632,823</u>
Fund balance, end of year	<u>\$ 650,702</u>	<u>\$ 281,349</u>

\*Reclassified for comparative purposes.

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

## Municipal Securities Rulemaking Board

### Statements of Changes in Financial Position

For the years ended September 30, 1981 and 1980

	<u>1981</u>	<u>1980</u>
Sources of funds:		
Operations:		
Revenues over (under) expenses	\$369,353	\$(351,474)
Noncash expenses—depreciation and amortization	<u>10,977</u>	<u>11,366</u>
Funds provided (used) by operations	380,330	(340,108)
Decrease in cash and investments	—	354,101
Decrease in prepaid expenses	1,908	389
Increase in accounts payable	8,306	—
Increase in accrued salaries and vacation pay	<u>1,050</u>	<u>9,159</u>
	<u>\$391,594</u>	<u>\$ 23,541</u>
Use of funds:		
Increase in cash and investments	\$292,064	\$ —
Increase in assessment fees receivable	84,002	8,165
Increase in accrued interest receivable	7,044	—
Increase in other assets	1,356	1,239
Net additions to fixed assets	7,128	13,754
Decrease in accounts payable	—	383
	<u>\$391,594</u>	<u>\$ 23,541</u>

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



## Municipal Securities Rulemaking Board Notes to Financial Statements

### 1. Accounting policies

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. This fee amounted to .001% of all sales during the period November 1, 1977 to December 31, 1979 and .001% of all sales with an aggregate par value of \$1,000,000 or more after December 31, 1979. Effective October 1, 1980, the rate was changed to .003%. Revenue from assessment fees is recognized upon the sale of the issue and is payable within 30 days of settlement with 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 SEC.

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

#### Investments

Investments in securities are stated at cost which closely approximates market.

#### 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.

### 2. Investments

A summary of investments is as follows:

	September 30,	
	1981	1980
T. Rowe Price Prime Reserve Fund	\$ 76,051	\$ 44,697
Kemper Money Market Fund	116,994	44,649
Certificates of deposit	300,000	100,000
	\$493,045	\$189,346

### 3. Commitments

The Board leases office space under a lease agreement expiring in March 1986 at a monthly rental of \$3,835, subject to an annual escalation of 3% and a proportionate share of the increase in real property taxes.

Total lease expense for office space and equipment for the years ended September 30, 1981 and 1980, was \$67,940 and \$70,250, respectively.

### 4. Retirement plan

The Board has a defined-contribution retirement plan. Participation in the plan is voluntary, and 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 \$30,330 in 1981 and \$17,024 in 1980.

### 5. 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, 1981 and 1980, since the Board had no unrelated business income.

## Report of Certified Public Accountants

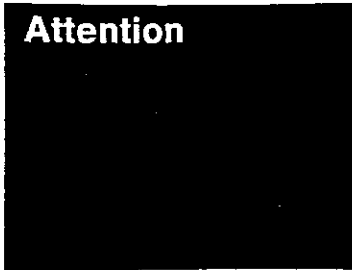
To the Members of the  
Municipal Securities Rulemaking Board

We have examined the balance sheets of the Municipal Securities Rulemaking Board as of September 30, 1981 and 1980, and the related statements of revenues and expenses and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Municipal Securities Rulemaking Board as of September 30, 1981 and 1980, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

1800 M Street, N.W.  
Washington, D.C.  
October 30, 1981

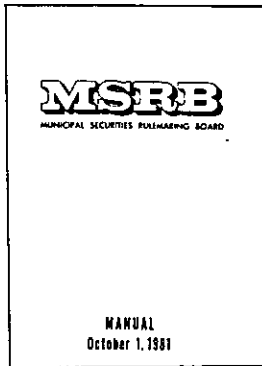


**Route To:**

Manager, Muni. Dept.  
 Underwriting  
 Trading  
 Sales  
 Operations  
 Compliance  
 Training  
 Other \_\_\_\_\_

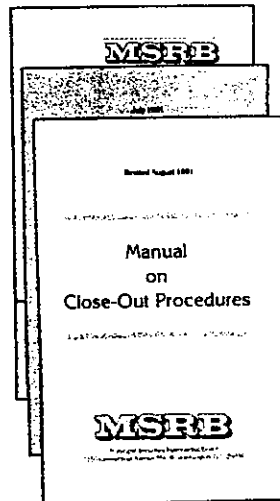
## Publications List

The following publications are available from the Board. Send requests to Municipal Securities Rulemaking Board, Suite 507, 1150 Connecticut Avenue, N.W., Washington, D.C. 20036 or phone (202) 223-9347.



**MSRB MANUALS  
(Softcover Edition)  
Official Publication of the  
Board**

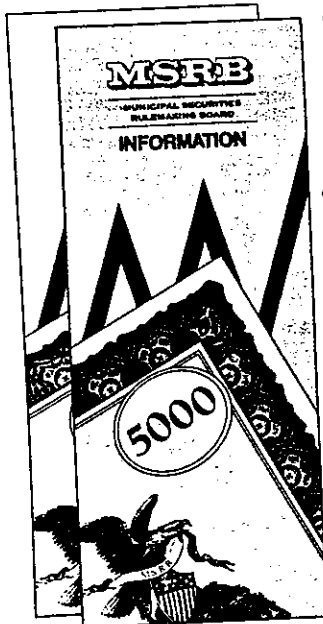
- Board Members
- Officials
- Securities Exchange Act of 1934
- Securities Investor Protection Act of 1970
- RULES OF THE BOARD
- Other Applicable Rules
- Forms
- New Developments (\$2.50 per copy)



**TOPICAL MANUALS**

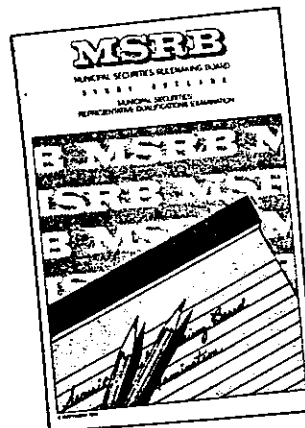
- **MANUAL ON CLOSE-OUT PROCEDURES:** Question-and-answer form outline of the provisions of rule G-12(h)(i) governing close-out procedures (\$2.00 per copy).
- **ARBITRATION PROCEDURES RULES A-16 AND G-35:** text of both rules (no charge).
- **ARBITRATION PROCEDURES:** Question-and-answer form outline on the Uniform Code of Arbitration (no charge).

**BROCHURES**



- **MSRB INFORMATION:** Brochure describing Board structure, responsibilities, the rulemaking process and Board/industry communications.
- **MSRB INFORMATION FOR INVESTORS:** Brochure describing how investors are protected by Board rules.

A sample of both of these brochures was enclosed with this issue of *MSRB Reports*. These brochures were designed as envelope "stuffers," and may be obtained from the Board at the above address. The first 500 copies of each brochure are free, all over 500 copies at 5¢ per copy.



**STUDY OUTLINES**

- Study outlines designed to assist candidates in preparing for the Board's qualification examinations (no charge).
- **MUNICIPAL SECURITIES REPRESENTATIVE** (Test Series 52).
  - **MUNICIPAL SECURITIES PRINCIPAL** (Test Series 53).
  - **MUNICIPAL SECURITIES FINANCIAL AND OPERATIONS PRINCIPAL** (Test Series 54).
  - **GENERAL SECURITIES SALE SUPERVISOR** (Test Series 8).