MSRB REPORTS

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Task Force On Registered Municipal Securities Sponsors Conference

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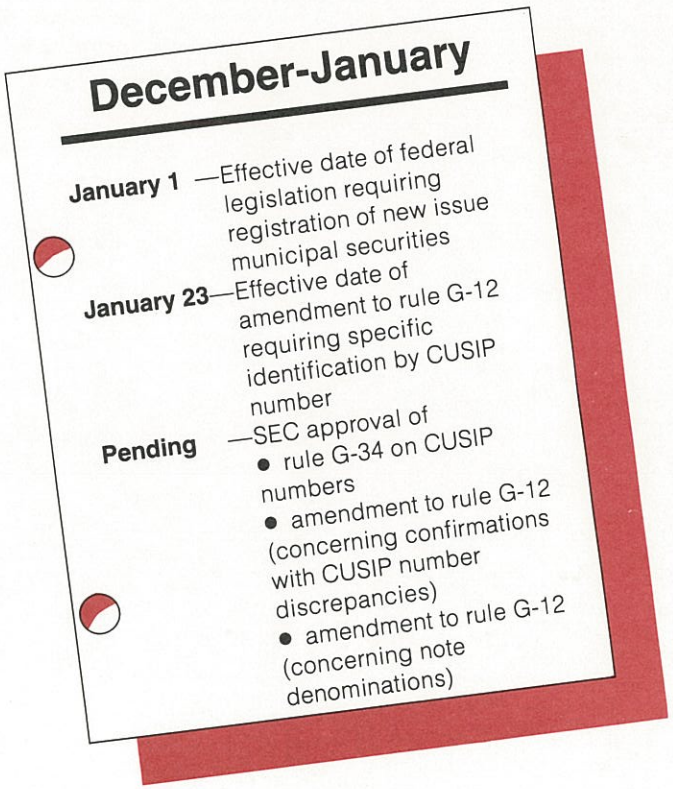

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Registration of Municipal Securities

Excerpts from Report of Conference on Registered Municipal Securities

Under the Securities Acts Amendments of 1975 the Municipal Securities Rulemaking Board has a responsibility, among other things, to promulgate rules designed to promote the efficient clearance and settlement of municipal securities transactions. At its first meeting subsequent to the passage of the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), the Board established a Task Force on Registered Municipal Securities to review the application of Board rules to transactions in registered municipal securities.[1] The Board recognized, however, that the impact of the registration requirement on participants in the municipal market, including municipal securities brokers and dealers, securities processors, investors and issuers, raised other important issues which, though not necessarily appropriate subjects for Board rulemaking, needed to be addressed by all of these participants within the very near future. The Board, therefore, asked the Task Force to establish a forum for the exchange of views by all segments of the municipal market in order to identify concerns and develop recommended approaches to compliance with the registration requirement.

The Task Force convened a conference of various issuer groups, associations representing the dealer and investor communities, interested Federal agencies, and other concerned organizations. The Conference was held on October 18 and 19, 1982 in Washington, D.C. On the first day of the conference panels of experts from the legislative, regulatory, legal, issuer, investor, banking and securities industry communities described in detail how the application of the registration provisions of TEFRA to the issuance of municipal securities will affect each of the various participants in the municipal market.

On the second day of the conference, participants were assigned to each of three discussion groups or workshops. Each workshop was asked to develop further information about concerns or problems associated with the registration requirement and, if possible, to reach a consensus on recommended approaches to compliance which would be both efficient and equitable to all segments of the municipal market. Each workshop was also requested to make a judgement about the minimum amount of time necessary to implement these recommendations.

After completion of the workshop discussions, the conference met in general session to listen to the reports of the three workshops and to develop, based on those reports as well as additional comments from participants, the findings and recommendations of the Conference as a whole.

The Report of the Conference on Registered Securities was published on November 10, 1982, and copies of the Report are available from the Board upon request. Reprinted below are certain excerpts from the Report—the Foreword and a summary of the Conference's recommendations and its related conclusions concerning the time and process necessary for implementing its recommendations.[2]

FOREWORD

Publication of the . . . Report of the Conference on Registered Municipal Securities clearly does not signal completion of the tasks facing the organizations which participated in the Conference and their constituencies in complying with the registration provisions of TEFRA. Rather, the Report outlines the registration-related issues on which all participants in the municipal market must now focus, and contains concrete proposals for dealing with them. In short, it represents a broad-based plan for compliance with the law.

In addition to obtaining information concerning the need for further rulemaking, the Board had several goals in mind when it decided to convene this Conference. A primary objective was simply to increase the level of awareness of

[1]Members of the Task Force are Jean J. Rousseau (Managing Director, Merrill Lynch White Weld Capital Markets Group), Chairman; Alan C. Arnold (Executive Vice President, Howard, Weil, Labouisse, Friedrichs, Inc.); Lawrence H. Brown (Senior Vice President, The Northern Trust Company); Mary Des Roches (Comptroller-Treasurer of the City of Minneapolis); and Arch W. Roberts (President, Arch W. Roberts & Co.).

The Board also published a notice, dated October 1, 1982, calling the attention of the municipal securities industry to the registration requirements of TEFRA. That notice, which is printed in the October/November 1982 issue of *MSRB Reports*, provides a summary of those Board rules which have particular application to municipal securities in registered form and requests public comment on the need for rule changes in light of the provisions of TEFRA. The Board has already proposed to amend its rules concerning close-out procedures to provide for additional time to handle delays in the transfer of registered municipal securities.

[2]These recommendations and conclusions represent general agreement of the Conference participants and it should not be assumed that every participant subscribed to each.

the registration requirement and the need for early action by all parties to comply with the law. We also believed that, through their participation in the Conference, all parts of the municipal industry—dealers, banks, issuers, bond attorneys, clearing and depository agencies, and investors—would develop a shared understanding of the problems and opportunities created by the registration requirement. Finally, we hoped that the Conference would identify specific areas of concern and reach general agreement about appropriate actions to resolve these concerns.

That the Conference was able to achieve all of these objectives is a tribute to the organizations which agreed to participate, to their representatives, all of whom came to the Conference prepared to contribute fully to its deliberations, and particularly to the panel members and workshop leaders and reporters. The fact that so many organizations and experts were willing to contribute to this effort on such short notice is also, we believe, a reflection of the deep concern which all municipal market participants feel about the impact of the registration requirement.

In developing recommended approaches to compliance, the conferees were requested to consider the minimum amount of time necessary to implement their recommendations. Virtually all of the conferees agreed that some period of delay in the effective date of the registration provisions is necessary. Legal experts provided information to the Conference on the basis of which they concluded that in many states changes in state law will be necessary, both to permit the issuance of tax-exempt municipal obligations after December 31, 1982 and to remove impediments to the efficient transfer and handling of these obligations.[3] The consensus of the Conference was that it would take as long as two years to accomplish these changes in some states. The Conference, therefore, recommended that the Congress be asked to delay the effective date of the registration provisions.

As indicated above, the Report contains a blueprint for action by all parties who, in order to comply with the registration provisions, will need to institute new procedures or establish new mechanisms. The Report also provides convincing evidence of the need for delay in the effective date of the registration requirement.

Copies of the Report are being furnished to all organizations invited to participate in the Conference as well as to all attendees. In addition, the Board will make a reasonable number of copies available upon request to other interested persons.

We believe that the Conference has contributed importantly to the process of achieving a smooth transition to a registered environment for municipal issues. We hope that this Report will serve to sustain the momentum for initiatives being taken by participants in the municipal market to attain that goal.

Jean J. Rousseau
Chairman, MSRB's Task Force on Registered Municipal Securities

November 8, 1982

Summary of Conference Recommendations

The Conference recommended that the following actions be taken in order to comply with the registration provisions of TEFRA:

I. Necessary Changes in State Law

1. All states should adopt amendments to existing laws or new legislation, as necessary, containing provisions to:
   a. Permit municipal securities to be issued in registered form;
   b. Permit the use of depositories and immobilized or book-entry delivery systems;
   c. Permit the employment of out-of-state as well as in-state transfer agents;
   d. In lieu of provisions of law requiring that each bond certificate bear the manual signature of an official of the issuer, provide for the facsimile signature or signatures of the officials of the issuer and a manual authenticating signature of the registrar or transfer agent;
   e. Permit the use of the standardized registered bond certificate which will be promulgated by the American National Standards Institute;
   f. Provide for the confidentiality of lists of registered holders maintained by the issuer or by its agents; and
   g. Provide that the subject legislation supersede all conflicting provisions of state and local law.
2. State constitutions and city charters should be reviewed to determine the need for similar changes, and plans for voter referenda or other necessary actions should be made.

The conferees expressed the view that bond attorneys, with the assistance of the issuer public interest groups, are in the best position to develop model legislation containing the above provisions for circulation to all state legislatures.

The consensus of the Conference was that it would take as long as two years for certain states to rewrite their laws in order to comply with the registration requirement.

II. Necessary Changes in Bond Issuance Procedures

1. Bond resolutions and bond indentures should be drafted to provide for the appointment of a registrar/transfer agent with full authority to perform those functions; and
2. Certificates should be prepared in blank so that any variable details of the issue (*e.g.*, interest rates, maturity dates, purpose or series, etc.), as well as the face amount of the certificate, can be inserted by the transfer agent.

Again, to the extent that these recommendations will require changes in state law, the conference consensus was that it would take as long as two years to accomplish these changes in certain states.

[3]Members of the Committee on the Tax Exemption of Obligations of the American Bar Association's Section on Urban, State and Local Government Law in cooperation with members of the National Association of Bond Lawyers' Committee on State Legislation have volunteered to conduct a comprehensive survey of state laws relating to the issuance of registered securities. It is expected that the Board will be in a position to make copies of this survey available upon request during the week of November 15.

III. Performance of the Transfer Function

1. Issuers should be able to elect to be the transfer agent for their own issues.

2. Provisions of state law should be amended to permit those municipal issuers who wish to use the services of professional transfer agents to do so.

3. Those performing the transfer function for registered municipal securities should adhere to the same standards that govern the transfer of registered corporate securities. In particular, steps should be taken to assure that those who perform the transfer function for registered municipal securities process or turn around routine items presented for transfer within 72 hours of their receipt (the 72-hour turnaround standard).

4. Issuers should consider the following factors both in determining whether to perform the transfer function themselves and, if they decide to use a professional transfer agent, in selecting that agent:

a. Whether the 72-hour turnaround standard can be met;

b. The costs of hiring a professional transfer agent;

c. The costs to issuers of inefficient transfer of registered securities, such as higher new issue interest costs and reduced secondary market liquidity and value;

d. The period of time, probably six months or more, necessary for an entity not already in the transfer agent business to implement efficient transfer procedures; and

e. Whether the location of the entity performing the transfer function will, because of delays in mail delivery, cause additional delays in the transfer process.

5. The method of transfer and the identity of the entity which will perform the transfer function should be disclosed in the initial offering documents (*e.g.* the notice of sale).

The conferees noted that, to the extent that state law changes are necessary to permit municipal issuers flexibility in selecting transfer agents or concluding appropriate transfer arrangements for their issues, the previously-identified period of time necessary for state law changes would apply.

If no such law impediments exist, the conferees concluded that a learning period fo six months or more would be needed for persons inexperienced with performing transfer functions to obtain some degree of proficiency in handling such activities. The conferees believed that such a period would be necessary in view of the complex and detailed nature of the transfer task.

IV. American National Standards Institute Proposal for Standardization of the Registered Securities Certificate

The ANSI proposed standard should, upon adoption by ANSI, be accepted by all issuers of municipal securities.

Because the final standard may not be promulgated by ANSI until the first quarter of 1983, the Conference concluded that implementation of the final standard by all municipal issuers and others involved in the issuance process can probably occur no earlier than October 1983. In those few instances where state law changes would be needed, achieving compliance with the standard would be a much more lengthy process.

V. Operational Considerations

(1) Record Date Standardization

The standard record dates used for registered corporate securities should also be used by issuers of registered municipal securities.

The Conference has concluded that some period of time (probably six months) would be necessary to educate issuers, underwriters and other affected persons about the uniform record dates.

(2) Changes in Rules of the Municipal Securities Rulemaking Board and the Securities and Exchange Commission

1. The MSRB should amend its rules to provide that registered bonds be delivered in denominations of $5,000 par value unless the parties otherwise agree at the time of trade. This rule amendment, however, should be the subject of a specific "sunset" provision to take effect no later than one or two years after the amendment becomes effective. Thereafter, deliveries in larger denominations only would be acceptable.

2. The SEC should give immediate consideration to adopting changes in its net capital and customer protection rules so that broker-dealers do not suffer substantial capital penalties because of delays in settlement due to untimely transfers of registered municipal securities.

The conferees noted that, if the MSRB and SEC decide that these rule changes are necessary, the rulemaking process will take from four to six months to complete.

VI. Use of Depositories and Immobilized or Book Entry Delivery Systems

1. Impediments to the use of depositories and immobilized or book-entry delivery systems which exist in state law or trade practice should be removed.

2. A comprehensive educational effort designed to encourage participation in these systems by issuers, dealers and investors should be undertaken by the dealer community.

3. Differences between the eligibility standards and practices of depositories which accept municipal securities should be eliminated in order to achieve nationwide efficiencies.

The Conference estimated that it will take at least one year to accomplish the objectives of effectively publicizing the existence of these systems and eliminating discrepancies between them. The elimination of state law impediments would, as has been noted, take up to two years to accomplish in certain states.

VII. Regulations to be Promulgated by the Secretary of the Treasury

The Secretary of the Treasury should promulgate regulations to address a number of concerns associated with the registration requirement.[4] The Secretary should issue these regulations as soon as possible.

[4]These concerns and the recommended resolution of them are described in the Report.

The conferees expressed a great deal of concern that temporary regulations would become available only two months prior to the effective date of TEFRA. Conferees from the dealer community pointed out that dealers would not be able, within that time frame, to establish procedures necessary to comply with those regulations concerning the use of nominee names.

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Rule G-12

Amendments Approved Concerning Fungibility and Specific Identification of Municipal Securities

On October 13, 1982, the Securities and Exchange Commission approved two amendments to Board rule G-12 on uniform practice, one concerning the fungibility (interchangeability) of municipal securities with different dated dates, and the other concerning the delivery on a transaction of municipal securities with an assigned CUSIP number other than that reflected on the inter-dealer confirmation of the transaction. The amendment pertaining to the fungibility of securities with different dated dates was effective upon approval; the amendment pertaining to the effect of CUSIP number differences will become effective on January 23, 1983. The text of the amendments follows this notice.

The first amendment revises the list of fungibility criteria currently specified in paragraph (e) (ii) of rule G-12 to add to this list the dated date of the securities. As a result of the approval of this amendment, therefore, Board rule G-12 now requires that all securities delivered on a transaction must be identical with respect to the following descriptive elements:

- the issuer, interest rate, and maturity date of the securities;
- whether the securities are subject to redemption prior to maturity;
- whether the securities are general obligation, limited tax, or revenue securities;
- the type of revenue, if the securities are revenue securities;
- the identity of any company or other person (in addition to the issuer) directly or indirectly obligated on the debt service of the issue;
- the specific provisions of a call or advance refunding, if the securities have been called or advance refunded;
- the first coupon date, if the securities have an "odd" (short or long) first coupon;
- the details of the call provisions (optional, mandatory, and extraordinary redemption features), if any, applicable to the securities; and
- the dated date of the securities.

The Board notes that, with the addition of the dated date of the securities to the list of descriptive elements previously set forth in the rule, the criteria governing the fungibility of municipal securities, as stated in the rule, become essentially congruent with the criteria used to assign CUSIP numbers to issues of municipal securities. Therefore, as a general rule, all securities delivered with respect to a transaction should have the same CUSIP number.

The second of the amendments alters paragraph (e) (ii) to require, in new subparagraph (e) (ii) (B), that the securities delivered on an inter-dealer transaction must have the same CUSIP number as that set forth on the confirmation of such transaction.[1] If the securities delivered have a CUSIP number different from that specified on the inter-dealer confirmations, the delivery may be rejected, except if the difference in CUSIP number is attributable to (1) a transposition or other transcription error, or (2) the use on the confirmation of a number which has been assigned as a substitute or alternative number for that reflected on the security.

The Board believes that these amendments will promote the use of the CUSIP numbering system in the industry's trading, processing and clearance activities. The Board is of the view that the industry's adoption of the CUSIP numbering system as an integral part of trading, processing and clearance practices will facilitate the development of more efficient clearance procedures and remove a major impediment to the use of automated comparison and book-entry delivery systems.

* * *

The text of the amendments follows.

November 1, 1982

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

Text of Amendments*

Rule G-12. Uniform Practice

(a) through (d) No change.

(e) Delivery of Securities. The following provisions shall,

[1]Subparagraph (c) (v) (F) of rule G-12 requires that an inter-dealer confirmation must set forth the "CUSIP number, if any, of the securities" involved in the transaction.

*Underlining indicates additions.

unless otherwise agreed by the parties, govern the delivery of securities:

(i) No change.

(ii) Securities Delivered.

(A) All securities delivered on a transaction shall be identical as to the information set forth in subparagraph (E) of paragraph (c) (v) and, to the extent applicable, the information set forth in subparagraphs (A) and (C) of paragraph (c) (vi). All securities delivered shall also be identical as to the call provisions and the dated date of such securities.

(B) The securities delivered on a transaction shall have the same CUSIP number as that set forth on the confirmation of such transaction pursuant to the requirements of subparagraph (c) (v) (F) of this rule; provided, however, that, for purposes of this subparagraph, a security shall be deemed to have the same CUSIP number as that specified on the confirmation (1) if the number assigned to the security and the number specified on the confirmation differ only as a result of a transposition or other transcription error, or (2) if the number specified on the confirmation has been assigned as a substitute or alternative number for the number reflected on the security. The provisions of this subparagraph (B) shall become effective on January 23, 1983.

(iii) through (xvi) No change.

(f) through (l) No change.

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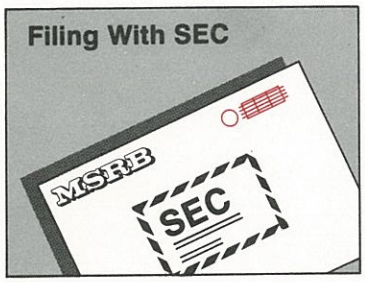

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Rule G-12

Amendment Filed Concerning Confirmations with CUSIP Number Discrepancies

On November 29, 1982, the Board filed with the Securities and Exchange Commission a proposed amendment to rule G-12(d) concerning the comparison and verification of inter-dealer confirmations containing CUSIP number discrepancies.[1] The proposed amendment will not become effective until approval by the Commission. The text of the proposed amendment follows this notice.

Board rule G-12(d) currently requires municipal securities brokers and dealers to compare inter-dealer confirmations of transactions, to follow certain specified procedures to resolve any discrepancies discovered in the course of such comparison, and to issue confirmations correcting such discrepancies. Paragraph (d) (ix) of the rule, however, provides that, in the event that a comparison of inter-dealer confirmations reveals a discrepancy limited solely to the CUSIP numbers on the confirmations, the parties of the transaction would have to take steps to resolve the discrepancy (through telephone communication or otherwise), but need not issue a corrected confirmation, showing the correct CUSIP number, upon resolution of the discrepancy.[2]

The Board has concluded that this provision is no longer appropriate. The CUSIP number designation on the confirmation of a transaction has become a key component of the identification of the securities involved in the transaction, particularly as more municipal securities transactions are compared and cleared by means of automated systems. Further, amendments to Board rules recently approved by the Commission will authorize, as of January 23, 1983, rejections of inter-dealer deliveries if the securities delivered have a different CUSIP number than that reflected on the inter-dealer confirmation. In light of the growing significance of the CUSIP number identification, therefore, the Board believes that it is important that the parties to a transaction agree on the CUSIP number, and that such number be accurately reflected on the confirmations exchanged by the parties. Accordingly, the Board proposes to delete paragraph (d) (ix) from rule G-12, thereby requiring that municipal securities brokers and dealers comparing confirmations showing CUSIP number discrepancies follow the same procedures, including the preparation and mailing of corrected confirmations, as they would to resolve any other type of discrepancy.

* * *

The text of the proposed amendment follows.

December 1, 1982

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

Text of Proposed Amendment*

Rule G-12. Uniform Practice

(a) through (c) No change.

(d) Comparison and Verification of Confirmations; Unrecognized Transactions.

(i) through (viii) No change.

~~(ix) The provisions of this section (d) shall not apply to any discrepancy in compared confirmations relating solely to the CUSIP number requirement of subparagraph F of paragraph (c)(v). In the event either party discovers such a discrepancy, such party shall promptly communicate such discrepancy to the contra-party and both parties shall promptly resolve the discrepancy.~~

(e) through (l) No change.

[1]Subparagraph (c) (v) (F) of rule G-12 requires that an inter-dealer confirmation must set forth the "CUSIP number, if any, of the securities" involved in the transaction.

[2]This provision was adopted at the time the requirement for CUSIP numbers on inter-dealer confirmations first became effective, in order to minimize the burdens caused by municipal securities brokers' and dealers' initial lack of familiarity with the CUSIP system.

*Material which is lined through will be deleted.

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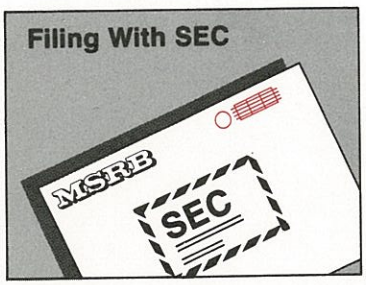

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Rule G-12

Amendment Filed Concerning Note Denominations

On November 15, 1982, the Board filed with the Securities and Exchange Commission a proposed rule change to rule G-12 (e) (v) concerning the requirements for "good delivery" on inter-dealer transactions. The proposed rule change would amend the current requirement that deliveries of notes be made in the same denominations as specified on the confirmation by allowing dealers to deliver smaller denominations, if the denominations delivered can be put together to make up the lots specified on the confirmation. The Board understands that the acceptance of smaller denominations in these circumstances has become common industry practice. Upon approval by the Commission, a dealer may not reject a note delivery that conforms with the requirements of the rule amendment.

A copy of the proposed rule change follows.

November 10, 1982

Text of Proposed 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 (iv) No change.

(v) Units of Delivery. Delivery of bonds shall be made in the following denominations:

(A) for bearer bonds, in denominations of $1,000 or $5,000 par value; and

(B) for registered bonds, in denominations which are multiples of $1,000 par value, up to $100,000 par value.

Delivery of other municipal securities shall be made in the denominations specified on the confirmation as required pursuant to paragraph (c) (vi) of this rule except that deliveries of notes may be made in denominations smaller than those specified if the notes delivered can be aggregated to constitute the denominations specified.

(vi) through (xvi) No change.

(f) through (l) No change.

*Underlining indicates new language.

Questions or comments concerning the proposed rule change should be directed to Angela Desmond, Deputy General Counsel.

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Rule A-13

New Issue Assessment Fee Decreased

The Securities and Exchange Commission has approved an amendment to the Board's underwriting assessment rule (rule A-13) to decrease the assessment rate from 2 cents to 1 cent per $1,000 par value of new issue municipal securities. The amendment applies to new issues of municipal securities contracted for on or after October 1, 1982.

Municipal securities brokers and municipal securities dealers are required to pay the assessment fee on all new issues purchased by or placed through them which have an aggregate par value of $1,000,000 or more and a final stated maturity of not less than two years from the date of the securities. Prior to the proposed rule changes, the fee was calculated at the rate of $.02 per $1,000 of the par value of such securities. The rule amendments modify rule A-13 to provide that the fee payable with respect to new issues which a municipal securities broker or municipal securities dealer has contracted on or after October 1, 1982, to purchase from an issuer shall be calculated at the rate of $.01 per $1,000.

Earlier this year, in view of its available fund balance, the Board adopted an amendment to rule A-13 reducing the underwriting assessment fee from $.03 to $.02 per $1,000 effective April 1, 1982. Since then, the fund balance has continued to grow as underwriting assessment fee receipts have exceeded expectations and expenses have remained within budgetary limits. In light of this reserve, the Board believed that a reduction in the underwriting assessment fee to $.01 per $1,000 was warranted. Based upon projections of the Board's expenses and revenues, assuming such reduction in the underwriting assessment fee, the Board expects that it will be able to continue its activities for at least 18 months without being required to increase the fee. The table below shows the different rates (per $1,000 par value of the issue) which have been used to determine the assessment fee since 1980:

Date of Contract With Issuer	Assessment Fee
October 1, 1980 to March 30, 1982	$.03
April 1, 1982 to September 30, 1982	$.02
October 1, 1982 to present	$.01

The Board reminds municipal securities brokers and municipal securities dealers that rule A-13 requires the filing of certain information with the Board concerning new issues of municipal securities, including those issues on which no assessment fee is payable.

* * * * *

The text of the amendment follows.

October 1, 1982

Text of Rule Changes*

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

(a) In addition to the fees prescribed by other rules of the Board, each municipal securities broker and municipal securities dealer shall pay a fee to the Board equal to ~~.002% ($.02 per $1,000)~~ .001% (.01 per $1,000) of the par value of all municipal securities which are purchased from an issuer by or through such municipal securities broker or municipal securities dealer, whether acting as principal or agent, as part of a new issue which has an aggregate par value of $1,000,000 or more and which has a final stated maturity of not less than two years from the date of the securities; provided, however, that if such municipal securities broker or municipal securities dealer is a member of a syndicate or similar account formed for the purchase of such securities, such fee shall be calculated on the basis of the participation of such municipal securities broker or municipal securities dealer in the syndicate or similar account. Such fee must be received at the office of the Board in Washington, D.C. not later than 30 calendar days following the date of settlement with the issuer. In the event a syndicate or similar account has been formed for the purchase of the securities, the fee shall be paid by the managing underwriter on behalf of each participant in the syndicate or similar account.

(b)–(c) No change.

(d) The fee prescribed in paragraph (a) shall be payable with respect to any new issue municipal security which a municipal securities broker or municipal securities dealer shall have contracted on or after ~~April 1, 1982~~ October 1, 1982 to purchase from an issuer.

(e) No change.

*Underlining indicates new language; material which is lined through has been deleted.