

MSRB REPORTS

Volume 4, Number 1

Municipal Securities Rulemaking Board

February 1984

Selection Process Starts for New Board Members

The Board appointed at its December meeting the 1984 Nominating Committee, to start the process of selecting five new Board members to serve three-year terms beginning October 1, 1984. One bank dealer, two public, and two securities firm representatives must be elected.

The Nominating Committee asks your participation in this process whether you are a member of the industry or someone from the general public.

As Chairman of the Nominating Committee, I urge you to use this opportunity to play a part in choosing the people who will guide the municipal securities industry. To help you participate, information on how to make a recommendation, a form for submitting a recommendation, and the names of those serving on the 1984 Nominating Committee are published in this issue.

Robert P. Beshar
Chairman
1984 Nominating Committee

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January-February

- **January 12**—Effective date of interpretive letter on G-15, call-feature confirmation disclosure for zero coupon bonds
- **January 23**—Effective date of amendment to G-12, delivery of registered securities in default
- Pending** —Effective date of certain G-12 and G-15 amendments on automated comparison, clearance and settlement (G-12(f)(i) and G-15(d)(ii) August 1, 1984) (G-12(f)(ii) and G-15(d)(iii) February 1, 1985)
- Pending** —SEC approval of:
 - amendments to G-12 CUSIP number discrepancies
 - amendment to G-15 on transactions in zero coupon, compound interest, and multiplier securities

**Route To:**

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

1984 Nominating Committee

The Nominating Committee appointed by the Board at its December meeting to nominate persons to be considered for positions open on the Board beginning October 1, 1984, consists of the five outgoing Board members and six non-Board members. The six non-Board members represent banks, the public and securities firms equally. A list of the names of those serving on the 1984 Nominating Committee follows:

Board Members

Robert P. Beshar
Attorney
63 Wall Street
New York, New York 10005
(212) 344-6410

Bernard R. Bober
Chairman
Ehrlich-Bober & Co., Inc.
80 Pine Street
New York, New York 10005
(212) 480-9335

Arthur T. Cooke, Jr.
Senior Vice President
Bank of America, NT & SA
555 California Street
P.O. Box 37003
San Francisco, California 94137
(415) 622-2201

Mary Des Roches
Associate Vice President
and Treasurer
University of Minnesota
301 Morrill Hall
100 Church Street, S.E.
Minneapolis, Minnesota 55455
(612) 373-2058

Michael D. Vick
President
M.B. Vick & Co.
120 South LaSalle Street
Chicago, Illinois 60603
(312) 346-3344

Non-Board Members

Ken Britt
Vice President
Zahner and Company
127 West Tenth Street
Kansas City, Missouri 64105
(816) 221-4311

Harrison J. Goldin
City Comptroller
New York City
Municipal Bldg., Rm. 530
New York, New York 10007
(212) 566-0290

W. Graham Lynch
Senior Vice President
Wachovia Bank & Trust Company
Main & Third Streets
P.O. Box 3099
Winston-Salem, North Carolina 27102
(919) 748-6511

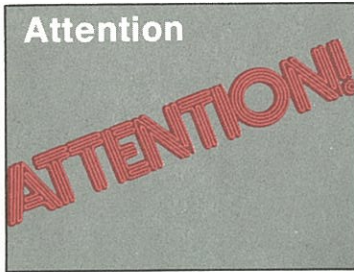
Lawrence C. McQuade
Executive Vice President
W.R. Grace & Co.
1114 Avenue of the Americas
New York, New York 10036
(212) 819-5826

Ashton Stuckey
Executive Vice President
Southtrust Bank of Alabama, N.A.
P.O. Box 2554
Birmingham, Alabama 35290
(205) 254-5357

John Thompson
Consultant
Salomon Brothers, Inc.
One New York Plaza
New York, New York 10004
(212) 747-5064

Chairman

Robert P. Beshar



Route To:

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

Recommendations Requested for Board Nomination

The 1984 Nominating Committee requests recommendations of persons to be considered for nomination for the five Board positions open October 1, 1984.

When making recommendations, keep in mind these Board membership requirements:

- One bank dealer representative, two public member representatives, and two securities firm representatives must be elected this year to ensure equal representation in each membership category.
- Municipal securities brokers and municipal securities dealers of diverse size and type must be represented.
- Broad geographic representation must be maintained.

The Board, established by Congress in 1975 to act as the primary rulemaking body for the municipal securities industry, 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 a representative of issuers and one of investors. Public members may not be associated with a securities firm or bank dealer, other than by reason of being under common control with, or indirectly controlling, any broker or dealer which is not a municipal securities broker or municipal securities dealer.

Instructions on How to Recommend

1. Complete the form printed on page 7 or a photocopy of that form. (Additional forms may be obtained from the Board's office.) At a minimum, include the following information for Board nominee recommendations:

- 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—bank representative, securities firm representative, or public member. (Item 1.)
 - The educational and professional background of the individual recommended. (Item 2.)
 - The proposer's name, business address, telephone number, and professional relationship (if any), to the individual recommended. (Item 3.)
 - The affiliation, if any, of the individual with any broker, dealer, or municipal securities dealer. (Item 4.)
2. Determine in advance that the person recommended is willing to serve on the Board.
 3. Submit names not later than March 16, 1984.
 4. Send recommendations to

Robert P. Beshar
Chairman, Nominating Committee
c/o Municipal Securities Rulemaking Board
Suite 507
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036

The Nominating Committee

- Robert P. Beshar
- Bernard R. Bober
- Ken Britt
- Arthur T. Cooke, Jr.
- Mary Des Roches
- Harrison J. Goldin
- W. Graham Lynch
- Lawrence C. McQuade
- Ashton Stuckey
- John Thompson
- Michael D. Vick

Terms of Present Board Members

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

Robert P. Beshar
Attorney
New York, New York

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

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

Mary Des Roches
Associate Vice President and Treasurer
University of Minnesota
Minneapolis, Minnesota

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

Board Members Whose Terms Expire**September 30, 1985**

John L. Glenn, Jr.
Senior Vice President
Sun Bank, N.A.
Orlando, Florida

Arch W. Roberts
President
Arch W. Roberts & Co.
Gainesville, Florida

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

Everett D. Williams
Partner
Stone & Youngberg
San Francisco, California

Frederick C. Witsell, Jr.
Senior Vice President
Morgan Guaranty Trust Co.
New York, New York

Board Members Whose Terms Expire**September 30, 1986**

Robert N. Downey
Partner
Goldman, Sachs & Co.
New York, New York

Peter J.D. Gordon
Vice President
T. Rowe Price Associates Inc.
Baltimore, Maryland

Ralph Horn
Senior Vice President
and Manager
First Tennessee Bank, N.A.
Memphis, Tennessee

Morris C. Matson
Assistant City Manager
City Hall
Fort Worth, Texas

Stephen C. Stone
Senior Vice President and
Manager
Cullen/Frost Bank
Dallas, Texas

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
- Public Finance
- Compliance
- Training
- Other _____

Rule G-11

Disclosure of Syndicate Expenses

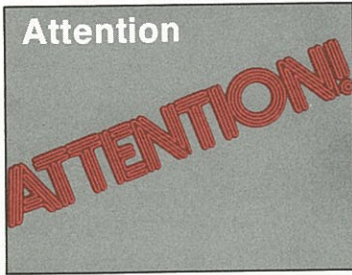
Board rule G-11, concerning syndicate practices, among other things, requires syndicates to establish priorities for different categories of orders and requires certain disclosures to syndicate members which are intended to assure that allocations are made in accordance with those priorities. In addition, the rule requires that the manager provide certain accounting information to syndicate members. In particular, subsection (h)(i) of the rule requires that senior syndicate managers, at or before the final settlement of a syndicate account, furnish to the other members of the syndicate "an itemized statement setting forth the nature and amounts of all actual expenses incurred on behalf of the syndicate." This provision is designed to assure that managers provide a detailed break-down of syndicate expenses.

The Board has received complaints from industry members concerning managers' non-compliance with this requirement that expense items listed are not described sufficiently to explain the true nature of the expenses.

The Board wishes to emphasize that, since one of the purposes of rule G-11(h)(i) is to assure the accountability of managers for syndicate funds, expense items must be described so as to make the expenditures readily understandable by syndicate members. Generalized categories of expenses will be deemed to be not in compliance with the rule if they do not adequately portray the nature of the expense.

January 12, 1984

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



Route To:

- Manager, Muni. Dept.
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Rule G-12

Amendment Approved on Delivery of Registered Securities in Default

The Securities and Exchange Commission has approved an amendment to rule G-12(e)(xiv)(H), on uniform practice, concerning the delivery of registered securities in default to conform the terminology used in the provision with that used in the confirmation disclosure requirements of rules G-12 and G-15. The confirmation disclosure requirements differentiate between a security which is traded "flat" and a security which is "in default" as to the payment of interest or principal. These confirmation provisions require, where applicable, that the description of securities set forth on confirmations contain the following information:

any special . . . factors affecting the payment of principal or interest, such as . . . (2) if the securities are traded without interest, "flat," or (3) if the securities are in default as to the payment of interest or principal, "in default," . . .¹

Rule G-12(e) sets forth certain requirements concerning inter-dealer deliveries of municipal securities. In particular, rule G-12(e)(xiv)(H) governs the payment of interest checks on the delivery of registered securities in default. The provision specifies that deliveries on transactions on which the recipient will be unable to have the securities transferred prior to the record date, in the event that an interest payment date has been established, must be accompanied by a check for the amount of interest due, unless the securities are traded "ex-interest." Rule G-12(e)(xiv)(H), however, equates the term "trading flat" with "in default." The amendment changes the reference in rule G-12(e)(xiv)(H) to securities "traded flat" to "in default" to make the provision con-

form to the terminology used in the confirmation disclosure requirements and to more precisely reflect the intent of the Board.²

January 23, 1984

Text of Amendment

Rule G-12. Uniform Practice*

- (a) through (d) No change.
- (e) Delivery of Securities
 - (i) through (xiii) No change.
 - (xiv) Delivery of Registered Securities
 - (A) through (G) No change.
 - (H) Registered Securities Traded-"Flat" In Default. If a registered security is ~~traded "flat" in default~~ (i.e. is in default in the payment of principal or interest) and transfer of record ownership cannot be accomplished on or before the record date for the determination of registered holders for the payment of interest, an interest payment date having been established on or after the trade date, delivery shall be accompanied by a draft or bank check of the seller or its agent, payable not later than the interest payment date or the delivery date, whichever is later, for the amount of the payment to be made by the issuer, unless the security is traded "ex-interest."
 - (xv) and (xvi) No change.
- (f) through (l) No change.

Questions concerning this amendment may be directed to Diane G. Klinke, Deputy General Counsel.

¹See rules G-12(c)(vi)(E) and G-15(a)(iii)(F).

²While securities in default are traded without accrued interest, or "flat," the term "flat" is broader than "in default" since, on the last day of the month prior to an interest payment, bonds also are traded flat while not in default (e.g. a transaction in a February/August 1 coupon bond traded for settlement July 31 which the parties agree will be settled without accrued interest).

*Underlining indicates new language; broken line indicates deletions.



Route To:

- Manager, Muni. Dept.
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Rule G-15

Amendment Filed on Transactions in Zero Coupon, Compound Interest and Multiplier Securities

The Board recently filed with the Securities and Exchange Commission an amendment to Board rule G-15(a) on customer confirmations concerning the information to be set forth on confirmations of transactions in zero coupon, compound interest and multiplier securities. The amendment will require the inclusion of a statement calling attention to certain unusual features of these securities and will supplement certain recent changes to the Board's confirmation rules, rules G-12 and G-15, to accommodate transactions in zero coupon, compound interest and multiplier securities.¹

The Board solicited comments on the draft disclosure requirements by a notice dated August 15, 1983.² Among other things, the Board's notice reminded dealers that the Board's fair dealing rule, rule G-17, imposes an obligation on persons selling zero coupon and similar securities to the public to adequately disclose their important characteristics. The Board stated, for example, that it is essential that investors be made aware that, unlike more traditional municipal bonds, these securities do not pay interest on a periodic basis. The Board further stated that the call features applicable to these securities usually permit them to be called at a price substantially below the maturity value. The Board took the position that this is material information which should be disclosed at or before the time of trade in order to enable the purchaser of the securities to make an informed investment decision. The Board also advised the industry that the fact that zero coupon and similar securities do not pay periodic interest is such an unusual feature, and the implications to customers of this fact as well as the facts concerning call features are so significant, that, in addition to being disclosed at or before the time of trade, it may be necessary to require that this information also be included on the written confirmations which are sent to customers. The Board received nine comment letters on the proposed amendment, a majority of which generally agreed that customer confirmations should call attention to the unusual features of zero coupon, compound interest and multiplier securities.

Provisions of Amendment

The amendment will apply to transactions in municipal securities which mature in more than two years and pay investment return solely at redemption. It will require that municipal securities brokers and municipal securities dealers which sell these securities to customers include on the final customer confirmation the following information:

- that the customer will not receive periodic interest payments;
- if applicable, that the securities are callable at a price below maturity value; and
- if the securities are callable and available in bearer form, that unless the securities are in registered form, the absence of periodic payments may make it difficult for the customer to determine whether the securities have been called.

The amendment provides that the following statement appearing in the description field of the confirmation or contained as a legend on the reverse side of the confirmation (if the presence of the legend is highlighted by a statement in the description field) will be deemed to satisfy these requirements: "No periodic payments—callable below maturity value without notice by mail to holder unless registered."

In adopting the final amendment, the Board acceded to the suggestion of a number of commentators that a dealer should have the option of determining whether it will place the requisite disclosures either in the description field on the front of a confirmation or contained as a legend on the reverse side of the confirmation. The Board believes that this will permit dealers to choose the least burdensome method of complying with the rule, while still assuring that these important disclosures are provided to purchasers of these securities.

The Board has requested that the Commission delay the effectiveness of the amendment until September 1, 1984, to permit industry members to complete programming, printing, or other tasks necessary to comply with the rule.

January 12, 1984

Questions concerning this proposed amendment may be directed to Diane G. Klinke, Deputy General Counsel.

¹These changes, which became effective December 12, 1983, relate to the disclosure of the maturity value of these securities, the description of the interest rate, transaction moneys and yield and dollar price calculations. See *MSRB Reports*, vol. 3, no. 6 (November 1983) at 17-18.

²See *MSRB Reports*, vol. 3, no. 5 (September 1983) at 19-20.

Text of Proposed Amendments*

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

(a) Customer Confirmations

(i) through (iv) No change.

(v) The confirmation for a transaction in securities maturing in more than two years and paying investment return solely at redemption:

(A) shall not show the par value of the securities specified in subparagraph (D) of paragraph (a)(i) and;

(B) shall not be required to show the amount of accrued interest specified in subparagraph (J) of paragraph (a)(i);

(C) Such confirmation shall however, show the maturity value of the securities and specify that the interest rate on the securities is "0%";

(D) shall indicate that the customer will not receive periodic payments;

(E) if applicable, shall indicate that the securities are callable at a price below the maturity value; and

(F) if the securities are callable and available in bearer form, shall indicate that unless the securities are registered it may be difficult for the customer to determine whether the securities have been called.

A statement in the description field of the confirmation or contained as a legend on the reverse side of the confirmation to the following effect will be deemed to satisfy the requirements of subparagraphs (D), (E) and (F) above: "No periodic payments—callable below maturity value without notice by mail to holder unless registered." Notwithstanding the foregoing, if the requisite information is set forth on the reverse side of the confirmation, its presence must be highlighted by a statement in the description field (e.g., "Important—See legend below").

(vi) through (ix) No change.

*Underlining indicates additions; broken line indicates deletions.

**Route To:**

- Manager, Muni. Dept.
- Underwriting
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- Public Finance
- Compliance
- Training
- Other _____

Application of Board Rules

Trades in Misdescribed or Non-Existent Securities

From time to time, industry members have asked the Board for guidance in situations in which municipal securities dealers have traded securities which either are different from those described ("misdescribed") or do not exist as described ("non-existent") and the parties involved were unaware of this fact at the time of trade. A sale of a misdescribed security may occur, for example, when a minor characteristic of the issue is misstated. A sale of a non-existent security may result, for example, from the sale of a "when, as and if issued" security which is never authorized or issued.

The Board has responded to these inquiries by advising that its rules do not address the resolution of any underlying contractual dispute arising from trades in such misdescribed or non-existent securities, and that the parties involved in the trade should work out an appropriate resolution. Board rule G-12(g) does permit reclamation of an inter-dealer delivery in certain instances in which information required to be included on a confirmation by rule G-12(c)(v)(E)¹ is omitted or erroneously noted on the confirmation or where other material information is erroneously noted on the confirmation. Rules G-12(g)(v) and (vi), however, make clear that a reclamation only reverses the act of delivery and reinstates the open contract on the terms and conditions of the original contract, requiring the parties to work out an appropriate resolution of the transaction.

The Board wishes to emphasize that general principles of fair dealing would seem to require that a seller of non-existent or misdescribed securities make particular effort to reach an agreement on some disposition of the open trade with the purchaser. The Board believes that this obligation arises since it is usually the seller's responsibility to determine the status of the municipal securities it is offering for sale. The extent to which the seller bears this responsibility, of course, may vary, depending on the facts of a trade.

The Board notes that the status of the underlying contract claim for trades in non-existent or misdescribed securities ultimately is a matter of state law, and each fact situation must be dealt with under applicable contract principles. The Board believes that the position set forth above is consistent with general contract principles, which commonly hold that a seller is responsible to the purchaser in most instances for failing to deliver goods as identified in the contract, or for negligently contracting for goods which do not exist if the purchaser relied in good faith on the seller's representation that the goods existed.

Parties to trades in misdescribed or non-existent securities should attempt to work out an appropriate resolution of the contractual agreement. If no agreement is reached, the Board's close-out and arbitration procedures may be available.

January 12, 1984

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

¹Rule G-12(c)(v)(E) requires that confirmations contain a description of the securities, including at a minimum the name of the issuer, interest rate, maturity date, and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities and in the case of any securities, if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service or, if there is more than one such obligor, the statement "multiple obligors" may be shown;



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
- Sales
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- Other _____

Letters of Interpretation

Rule G-12—Delivery of Securities with Mutilated Coupons

I am writing in response to your recent letter concerning the provisions of Board rule G-12(e) with respect to inter-dealer deliveries of securities with mutilated coupons attached. You indicate that your firm recently became involved in a dispute with another firm's clearing agent concerning whether certain coupons attached to securities your firm had delivered to the agent were mutilated. You request guidance as to the standards set forth in rule G-12(e) for the identification of mutilated coupons.

As you are aware, rule G-12(e)(ix) indicates that a coupon will be considered to be mutilated if the coupon

is damaged to the extent that any one of the following *cannot be ascertained* from the coupon:

- (A) title of the issuer;
- (B) certificate number;
- (C) coupon number or payment date . . . ; or
- (D) the fact that there is a signature . . .

[Emphasis added.]

The standard set forth in the rule (that the information "cannot be ascertained") was deliberately chosen to make clear that minimal damage to a coupon is not sufficient to cause that coupon to be considered mutilated. For example, if the certificate number imprinted on a coupon is partially torn, but a sufficient portion of the coupon remains to permit identification of the number, the coupon would not be considered to be mutilated under the standard set forth in the rule, and a rejection of the delivery due to the damage to the coupon would not be permitted. In the case of the damaged coupon shown on the sample certificate enclosed with your letter, it seems clear that the certificate number can be identified, and confusion with another number would not be possible; therefore, this coupon would not be considered to be mutilated under the rule, and a rejection of a delivery due to the damage to this coupon would not be in accordance with the rule's provisions.

Your letter also inquires as to the means by which dealers can obtain redress in the event that a delivery is rejected due to damaged coupons which are not, in their view, mutilated under the standard set forth in the rule. I note that rule G-12(h)(ii) sets forth a procedure for a close-out by a selling

dealer in the event that a delivery is improperly rejected by the purchaser; this procedure could be used in the circumstances you describe to obtain redress in this situation. Further, the arbitration procedure under Board rule G-35 could also be used in the event that the dealer incurs additional costs as a result of such an improper rejection of a delivery.—*MSRB interpretation of January 4, 1984, by Donald F. Donahue, Deputy Executive Director.*

Rules G-12 and G-15—Confirmation Disclosure of Advance Refunded Securities

I am writing in response to your recent letter concerning the confirmation description requirements of Board rules applicable to transactions in securities which have been advance refunded. In particular, you note that certain issues of securities have been advance refunded by specific certificate number, with securities of certain designated certificate numbers refunded to one redemption date and price and other securities of the same issue refunded to a different redemption date and price. You inquire whether a confirmation of a transaction in such securities should identify the securities as being advance refunded by certificate number.

Rules G-12(c)(vi)(C) and G-15(a)(iii)(C) require that confirmations include

if the securities [involved in the transaction] are "called" or "prerefunded," a designation to such effect, the date of maturity which has been fixed by the call notice, and the amount of the call price . . .

The rules therefore require, with respect to a transaction in securities which have been advance refunded by certificate number, that the confirmation state that the securities have been advance refunded, and the refunding redemption date and price. The rules do not require that the fact that only certain specific certificate numbers of the issue were advance refunded to that redemption date and price be stated on the confirmation.—*MSRB interpretation of January 4, 1984, by Donald F. Donahue, Deputy Executive Director.*

Rule G-15—Call Feature Disclosure on Confirmation of Transactions in Zero Coupon Bonds and Similar Securities

I am writing in response to your letter of October 18, 1983 concerning the appropriate method of disclosing on a confirmation a call price used in the computation of a dollar price or yield on a transaction in a zero coupon, compound

interest, multiplier, or other similar type of security. In your letter you indicate that the call features on these types of securities often express the call prices in terms of a percentage of the compound accreted value of the security as of the call date.¹ You note that, in computing a price or yield to such a call feature, it is necessary for the computing dealer to convert such a call price into its equivalent in terms of a percentage of maturity value (i.e., into a standard dollar price), and use this figure in the computation. You inquire whether, in circumstances where the confirmation of a transaction is required to disclose a yield or dollar price computed to such a call feature, the call price used in the calculation should be stated on the confirmation in terms of the percentage of the compound accreted value or in terms of the equivalent percentage of maturity value.

The requirement which is the subject of your inquiry is set forth in Board rule G-15(a)(i)(l) as follows:

In cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par

option, this must be stated, and the call or option date and price used in the calculation must be shown. . . .²

The Board is of the view that, in the case of a computation of a yield or dollar price to a call or option feature on a transaction in a zero coupon or similar security, the call price shown on the confirmation should be expressed in terms of a percentage of the security's maturity value. The Board believes that the disclosure of the call price in terms of the security's maturity value would provide more meaningful information to the purchaser, since other confirmation disclosures on these types of securities are also expressed in terms of the security's maturity value. This form of disclosure therefore presents the information to a purchaser in a consistent format, thereby facilitating the purchaser's understanding of the information shown on the confirmation. The Board notes also that this form of disclosure is simpler and requires less confirmation space to present.—*MSRB interpretation of January 4, 1984, by Donald F. Donahue, Deputy Executive Director.*

¹For example, the selected portions of an official statement describing one of these types of issues enclosed with your letter indicate that the security in question is callable on October 1, 1993 at 108% of the security's compound accreted value on that date (which is indicated elsewhere in the official statement to be \$146.02 per \$1000 of maturity value).

²Comparable requirements with respect to inter-dealer confirmations are set forth in Board rule G-12(c)(v)(l).



Route To:

- Manager, Muni. Dept.
- Underwriting
- Trading
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Financial Statements

Fiscal Years Ended September 30,
1982 and 1983

Coopers
& Lybrand

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, 1983 and 1982, and the related statements of revenues and expenses and change 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, 1983 and 1982, 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.

1800 M Street, N. W.
Washington, D. C. 20036
October 28, 1983

MUNICIPAL SECURITIES RULEMAKING BOARD

BALANCE SHEETS

September 30, 1983 and 1982

	1983	1982
ASSETS		
Cash	\$ 4,905	\$ 11,456
Investments (Notes 1 and 2)	1,265,199	1,110,571
Assessment fees receivable (Note 1)	107,311	239,619
Accrued interest receivable	46,351	37,355
Prepaid expenses	7,759	9,754
Other assets	980	4,890
Office furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$80,600 in 1983 and \$68,700 in 1982 (Note 1)	46,552	29,413
	<u>\$1,479,057</u>	<u>\$1,443,058</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$ 36,105	\$ 13,219
Accrued salaries and vacation pay	30,503	18,852
	<u>66,608</u>	<u>32,071</u>
Commitments (Note 3)		
Fund balance	1,412,449	1,410,987
	<u>\$1,479,057</u>	<u>\$1,443,058</u>

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

MUNICIPAL SECURITIES RULEMAKING BOARD
STATEMENTS OF REVENUES AND EXPENSES AND
CHANGE IN FUND BALANCE
for the years ended September 30, 1983 and 1982

	1983	1982
Revenues:		
Assessment fees (Note 1)	\$ 943,938	\$1,582,498
Annual fees (Note 1)	197,400	182,400
Initial fees (Note 1)	24,200	15,800
Investment income	133,521	113,478
Board manuals and other	21,201	23,094
	1,320,260	1,917,270
Expenses:		
Salaries and employee benefits (Note 4)	570,566	504,309
Board and committee	337,300	276,845
Operations (Note 3)	167,661	153,207
Education and communication	212,930	194,442
Professional services	15,803	17,147
Depreciation and amortization (Note 1)	14,538	11,035
	1,318,798	1,156,985
Revenues over expenses	1,462	760,285
Fund balance, beginning of year	1,410,987	650,702
Fund balance, end of year	\$1,412,449	\$1,410,987

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, 1983 and 1982

	1983	1982
Sources of funds:		
Operations:		
Revenues over expenses	\$ 1,462	\$760,285
Noncash expenses - depreciation and amortization	14,538	11,035
Funds provided by operations	16,000	771,320
Decrease in assessment fees receivable	132,308	-
Decrease in prepaid expenses	1,995	-
Decrease in other assets	3,910	-
Increase in accounts payable	22,886	-
Increase in accrued salaries and vacation pay	11,651	-
	\$188,750	\$771,320
Uses of funds:		
Increase in cash and investments	\$148,077	\$627,205
Increase in assessment fees receivable	-	84,585
Increase in accrued interest receivable	8,996	30,311
Increase in prepaid expenses	-	2,009
Increase in other assets	-	799
Net additions to fixed assets	31,677	12,102
Decrease in accounts payable	-	12,245
Decrease in accrued salaries and vacation pay	-	2,064
	\$188,750	\$771,320

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 rule-making responsibility for the municipal securities industry.

Assessment fees

The underwriting assessment fee is equal to a percentage of the face amount of all municipal securities which are purchased from an issuer as part of a new issue by or through such municipal securities broker or municipal securities dealer, whether acting as principal or agent, and which have a final stated maturity of not less than two years and an aggregate par value of not less than \$1,000,000. This fee amounted to .001% of all such sales in 1983; and .003% from October 1, 1981 to March 31, 1982 and .002% from April 1, 1982 through September 30, 1982. 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.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

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,	
	1983	1982
T. Rowe Price Prime Reserve Fund	\$ -	\$ 10,002
T. Rowe Price U. S. Treasury Money Fund	66,229	-
Kemper Money Market Fund	-	18,498
Certificates of deposit	-	600,000
United States Treasury Bills	1,198,970	482,071
	\$1,265,199	\$1,110,571

3. Commitments

The Board leases office space under a lease agreement expiring in March 1986 at a monthly rental of \$4,069, subject to an annual escalation of 3% and a proportionate share of the increase in real property taxes. The lease may be renewed, at the Board's option, for a period of 10 years, in accordance with the terms set forth in the lease agreement.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

Total lease expense for office space and equipment for the years ended September 30, 1983 and 1982, was \$89,800 and \$87,100, 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 \$31,700 in 1983 and \$27,500 in 1982.

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, 1983 and 1982, since the Board had no unrelated business income.



Route To:

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

Publications List

Manuals

MSRB Manual

Soft-cover, Commerce Clearing House manual (CCH), updated semi-annually or annually, containing rules of the Board; text of the Securities and Exchange Act of 1934, as amended; text of Securities Investor Act of 1979; samples of forms; lists of Board members and staff; and new developments.

January 1, 1984 \$5.00

Professional Qualification Handbook

Analysis of requirements for qualification as a municipal securities representative, principal, sales principal, and financial operations principal; text of the rules; and glossary of terms (1983).

49 pages 5 copies per year (No charge)
Each additional copy ... \$1.50

Manual on Close-Out Procedures

Discussion of the close-out procedures of rule G-12(h)(i) in question-and-answer format, glossary of terms, and text of rules (1981).

70 pages \$2.00

Arbitration Procedures: Rules A-16 and G-35

Text of rules (1981).

12 pages (No charge)

Arbitration Information

Explanation of arbitration and the procedures for initiating arbitration, fee schedule, and glossary of terms.

12 pages (No charge)

How to Proceed With the Arbitration of a Small Claim

Explanation of arbitration procedures for filing an arbitration claim under \$2,500, text of rules, and submission agreement form.

12 pages (No charge)

Reporter and Newsletter

MSRB Reports

MSRB reporter and newsletter to the municipal securities industry on proposed rule changes, rule changes, notices requesting comment from the industry and public, and news items.

Members of the industry and other interested parties listed on the *MSRB Reports* mailing list receive issues as published; additional copies are sent on request.

Examination Study Outlines

Study Outline: Municipal Securities Representative Qualifications Examination

Outline for Test Series 52 (1983).

30 pages (No charge)

Study Outline: Municipal Securities Principal Qualifications Examination

Outline for Test Series 53 (1982).

9 pages (No charge)

Study Outline: Municipal Securities Financial and Operations Principal

Outline for Test Series 54 (1978).

4 pages (No charge)

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

Reports

Report of the Conference on Registered Municipal Securities

Report resulting from the forum organized by the Board's Task Force on Registered Municipal Securities to define problems and to explore solutions to the registration requirement.

48 pages (No charge)

Prospects for Automation of Municipal Clearance and Settlement Procedures: Report to the Securities and Exchange Commission

Special edition of *MSRB Reports* publishing the SEC-requested report on the progress achieved in the development of automated clearance and settlement systems (1983).

45 pages (No charge)

Pamphlets

MSRB Information

A coated-stock, three-fold, single-sheet pamphlet describing Board authority, structure, responsibility, rulemaking process, and communication with industry.

1-500 copies (No charge)

Over 500 (.05 per copy)

MSRB Information for Investors

A coated-stock, four-fold, single-sheet pamphlet describing Board rulemaking authority, the rules protecting the investor, and communication with the industry and investors.

1-500 copies (No charge)

Over 500 (.05 per copy)