MSRB REPORTS

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Five Board Members Elected to Three-Year Terms

The Board is pleased to announce the election of five Board members to serve three-year terms beginning October 1, 1983. The individuals chosen by the Board are:

Robert N. Downey—partner of Goldman, Sachs & Co. and former chairman of the Municipal Finance Committee and member of the Board of Directors and the Executive Committee of the Securities Industry Association;

Peter J.D. Gordon—vice president of T. Rowe Price Associates, Inc. and past president of Municipal Bond Club of Baltimore;

Ralph Horn—senior vice president of First Tennessee Bank, N.A., and member of Board of Directors of Dealer Bank Association;

Morris C. Matson—assistant city manager of Fort Worth, Texas, member of Debt Committee of Municipal Finance Officers Association and past president of Texas Municipal Finance Officers;

Stephen C. Stone—senior vice president of Cullen Center Bank and Trust Co.

Staff Appointments

Angela Desmond assumed the position of General Counsel of the Board on August 15, 1983. Ms. Desmond, formerly Deputy General Counsel, joined the Board staff in February 1981. Previously, she served at the Securities and Exchange Commission as Chief of the Branch of Exchange Regulation in the Division of Market Regulation and as a staff attorney in the Office of the General Counsel. She replaces Richard B. Nesson, who has joined The Depository Trust Company in New York.

Diane Klinke has been appointed Deputy General Counsel. Previously, she served at the Securities and Exchange Commission as counsel to Chairman John Shad and as a staff attorney in the Office of the General Counsel. She also has been an associate with the New York bond counsel firm of Hawkins, Delafield and Wood.

SECO Dealers Required to Join NASD

The Securities Exchange Act was amended on June 6, 1983, to eliminate the SECO broker-dealer program and to require instead that all registered broker-dealers become members of a registered securities association. The legislation goes into effect on December 6, 1983. All municipal securities brokers and dealers, other than bank dealers, must become members of the National Association of Securities Dealers, Inc. ("NASD") by that date.

The NASD has adopted certain procedures to facilitate the conversion from the SECO program to NASD membership. These include modified application requirements, waiver of certain initial membership fees and waiver of qualification examinations for most associated persons. Completed applications to convert to NASD membership must be filed with the NASD by September 15, 1983, to assure that they are processed by the December 6 deadline.

Questions concerning the conversion process should be directed to Ms. Ann Sharp at the NASD, (202) 728-8139.

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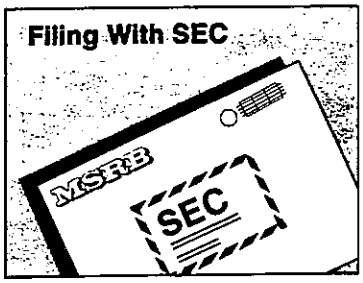

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Rule G-12

Proposed Amendment Filed Regarding Interest Payment Checks

On August 12, 1983 the Board filed with the Securities and Exchange Commission a proposed amendment to the provisions in rule G-12 regarding the dating of interest payment checks provided on inter-dealer deliveries. The text of the proposed amendment follows this notice. The proposed amendment will not become effective until it is approved by the Commission.

Board rule G-12 sets forth certain requirements concerning inter-dealer deliveries of securities. Among other matters, the rule provides that, with respect to deliveries of securities made within a certain period of time prior to the interest payment date, the delivering dealer may attach a check in lieu of the next-payable coupon, in the case of a delivery of bearer securities, or, in the case of a delivery of registered securities, the delivering dealer must attach a check for the value of the next interest payment to be received on the securities. Under the current provisions of the rule, checks provided in lieu of the coupons or for the value of the next interest payment must be currently dated—that is, payable as of the date the delivery is presented—even if the coupons will not be redeemable or the interest payment made for several weeks after the delivery.

The existing requirement that these interest payment checks be currently dated was based on the Board's belief that such a requirement was appropriate to minimize the receiving dealer's risk of loss in the event that the delivering dealer subsequently failed or declared bankruptcy.[1] In promulgating this requirement the Board was aware that the use of currently dated checks might impose certain costs on delivering dealers (the cost of the use of the funds for the period between the delivery date and the interest payment date). The Board also recognized, however, that, with respect to deliveries of coupon-bearing securities (historically the form of securities used on the overwhelming majority of deliveries), dealers wishing to avoid such costs could do so by reattaching the next-payable coupon, thereby eliminating the need for the interest payment check. Since the costs imposed by the requirement that interest payment checks be currently dated could easily be minimized through such action, the Board concluded that such a requirement would provide an appropriate degree of protection against financial risk without imposing significant burdens.

The Board has recently reconsidered this question, due, in part, to the recent effectiveness of the registration requirements of the Tax Equity and Fiscal Responsibility Act. As a result of this reconsideration the Board has concluded that the rule should be amended to permit the use of post-dated or "due bill" checks—that is, checks dated as of the interest payment date—in lieu of coupons or for the value of the interest payment. Accordingly, the proposed amendment would revise rule G-12(e)(viii)(C), with respect to deliveries of bearer securities, and rules G-12(e)(xiv)(G) and (H), with respect to deliveries of registered securities, to provide that interest payment checks accompanying deliveries must be "payable not later than the interest payment date."

The Board believes that the proposed amendment is appropriate for the following reasons:

(1) With the transition to the use of registered securities the costs imposed by the existing requirement will significantly increase. As noted above, these costs can be minimized, in the case of a delivery of bearer securities, by reattaching the next-payable coupon to the securities prior to delivery, thereby eliminating the need for any interest payment check. The Board believes that municipal securities brokers and dealers have attempted to follow this procedure, where practical, in order to minimize costs; other brokers and dealers have chosen to avoid incurring these costs by delaying the detachment of the next-payable coupon until the last possible moment.

In the case of registered securities, however, no such means of eliminating the need for interest payment checks and the attendant costs exists. Consequently, the cost burden imposed by the requirement that such checks be currently dated will significantly increase, since all inter-dealer deliveries of registered securities during the period between

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

[1]For example, if the dealer drawing the check went bankrupt one week after the delivery (prior to the interest payment date), a check dated as of the interest payment date might not be honored. A currently dated check, of course, could be negotiated immediately.

the record and interest payment dates will have to have interest payment checks attached. The Board believes that this increase in costs will be substantial; the proposed amendment, by permitting the use of post-dated checks, would eliminate these costs.

(2) The benefit provided by the existing requirement—the elimination of the risk of loss resulting from a financial failure of the delivering dealer—does not appear commensurate with the increased costs. Upon reconsideration the Board does not believe that the risk of loss is significant enough to justify the existing requirement: the number of dealer failures is quite low, and, even in the event that a dealer's failure results in the dishonoring of interest payment checks, most interest payment checks are for relatively small amounts. The Board notes that, if a dealer is concerned about the financial stability of another dealer with whom it is effecting a transaction, it can impose certain conditions on the transaction, such as a requirement that interest payment checks be currently dated or certified, by agreement with the other dealer at the time of trade.

(3) The existing requirement conflicts with the practice followed in the corporate debt securities market with respect to the dating of interest payment checks. The Board understands that post-dated checks are typically used on inter-dealer deliveries of corporate debt securities, and does not perceive any considerations that would justify the imposition on the municipal securities market of a requirement in this area that is more stringent than that applicable in the corporate securities market.

August 12, 1983

Text of Proposed Amendment*

Rule G-12. Uniform Practice

(a) through (d) No change.

(e) Delivery of Securities. The following provisions shall, unless otherwise ageed by the parties, govern the delivery of securities:

(i) through (vii) No change.

(viii) Coupon Securities.

(A) through (B) No change.

(C) If delivery of securities is due within 30 calendar days prior to an interest payment date, the seller may deliver to the purchaser a draft or bank check of the seller or its agent, payable not later than the interest payment date ~~on the date delivery is made~~, in an amount equal to the interest due in lieu of the coupon.

(ix) through (xiii) No change.

(xiv) Delivery of Registered Securities.

(A) through (F) No change.

(G) Payment of Interest. If a registered security is traded "and 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, delivery shall be accompanied by a draft or bank check of the seller or its agent, payable not later than the interest payment date ~~on the date delivery is made~~, for the amount of the interest.

(H) Registered Securities Traded "Flat." If a registered security is traded "flat" (*i.e.*, is in default in the payment of 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 ~~on the date delivery is made~~, 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.

*Underlining indicates additions; broken line indicates deletions.

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Rule G-12

Amendments Approved Regarding Deliveries of Registered Securities

On August 2, 1983 the Securities and Exchange Commission approved amendments to certain of the provisions of rule G-12(e)(xiv) regarding deliveries of registered securities. The amendments (1) establish standards concerning the types of registration which are acceptable for delivery purposes, (2) specify that securities with other types of registration, deemed to be securities in "legal form," are not deliverable without agreement at the time of trade, and (3) make technical changes to other provisions regarding registered securities. The text of the amendments follows this notice. At the request of the Board, the Commission has delayed the effectiveness of the amendments for a period of 60 days; the amendments will therefore be applicable to any inter-dealer deliveries of registered securities made on or after October 3, 1983.

The provisions of the amendments are as follows:

- The amendments revise subparagraph (e)(xiv)(E) of the rule to require that a security be registered in the name of one of the following four types of persons or entities to be acceptable for delivery purposes:

  (1) an individual or individuals;

  (2) a nominee;

  (3) a municipal securities broker or municipal securities dealer whose signature is on file with the transfer agent (if the broker or dealer is not a member of a national securities exchange, a statement attesting to the filing of the signature must be placed on the assignment); or

  (4) an individual or individuals acting in a fiduciary capacity (*e.g.*, as an individual executor, trustee, administrator, custodian, etc.) who is specifically named on the certificate.[1]

- The amendments revise subparagraph (e)(xiv)(F) to specify that certificates registered in the name of types of persons or entities other than those specified in subparagraph (e)(xiv)(E), on which documentation in addition to the completed securities assignment would be required in order to transfer the securities, would be considered under the amendment to be in "legal form" and unacceptable for delivery purposes unless the parties agree otherwise at the time of trade.

- The amendments make a technical change in the provisions of subparagraph (e)(xiv)(A) to reflect the fact that securities may be registered in more than one person's name.

- The amendments also revise the reclamation provisions of rule G-12(g)(iii) to provide that a delivery of registered securities may be reclaimed in the event that the transfer agent refuses to transfer the securities because it deems the documentation provided with the securities to be inadequate for transfer purposes. The Board believes that this provision of the amendments is necessary to deal with those relatively infrequent instances where an individual transfer agent may require documentation in connection with a transfer in addition to that which is normally necessary and is required under Board rules.

August 5, 1983

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

(i) through (xiii) No change.

(xiv) Delivery of Registered Securities

(A) Assignments. Delivery of a certificate in registered form must be accompanied by an assignment on the certificate or on a separate bond power for such certificate, containing a signature or signatures which correspond in every particular with the name or names written upon the certificate, except that the following

[1]The Board notes that this last category requires that the securities be "registered in the name of" a person acting as a fiduciary. Therefore, the fiduciary must be specifically named on the certificate (*e.g.*, "Mary Smith, as trustee for John Jones"). A security registered in the name of one person with the assignment signed by a second person acting in a fiduciary capacity (*e.g.*, a security registered in the name of "John Jones" with the assignment signed by "Mary Smith, as trustee") would, under the amendments, be considered to be in "legal form" and not be deliverable (absent agreement) as such.

*Underlining indicates additions; deleted language has been omitted.

shall be interchangeable; "and" or "&"; "Company" or "Co."; "Incorporated" or "Inc."; and "Limited" or Ltd."

(B) through (D) No change.

(E) Form of Registration. Delivery of a certificate accompanied by the documentation required in this paragraph (xiv) shall constitute good delivery if the certificate is registered in the name of:

(1) an individual or individuals;

(2) a nominee;

(3) a member of a national securities exchange whose specimen signature is on file with the transfer agent or any other municipal securities broker or municipal securities dealer who has filed specimen signatures with the transfer agent and places a statement to this effect on the assignment; or

(4) an individual or individuals acting in a fiduciary capacity.

(F) Certificate in Legal Form. Good transfer of a security in legal form shall be determined only by the transfer agent for the security. Delivery of a certificate in legal form shall not constitute good delivery unless the certificate is identified as being in such form at the time of trade. A certificate shall be considered to be in legal form if documentation in addition to that specified in this paragraph (xiv) is required to complete a transfer of the securities.

(G) and (H) No change.

(xv) and (xvi) No change.

(f) No change.

(g) Rejections and Reclamations

(i) and (ii) No change.

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

(A) and (B) No change.

(C) Reclamation by reason of the following shall be made within 18 months following the date of delivery:

(1) No change.

(2) Refusal to transfer or deregister by the transfer agent due to presentation of documentation in connection with the transfer or deregistration which the transfer agent deems inadequate.

(3) No change.

(D) No change.

The running of any of the time periods specified in this paragraph shall not be deemed to foreclose a party's right to pursue its claim via other means, including arbitration.

(iv) through (vi) No change.

(h) through (l) No change.

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Rule G-12

Comments Requested on Proposed Amendment Concerning Delivery Standards for Book-Entry Securities

The Board is circulating for public comment a draft amendment to the provisions of rule G-12(e) regarding inter-dealer deliveries of book-entry form securities. The draft amendment would establish standards for deliveries of such securities in cases where such deliveries are not made through the facilities of a securities depository. The draft amendment is being circulated for the purpose of eliciting comment prior to further consideration of the proposal by the Board and filing with the Securities and Exchange Commission.

Board rule G-12(e) establishes certain standards regarding deliveries of securities between municipal securities brokers and dealers. Rule G-12(a)(i), however, provides that such standards do not apply to deliveries made through the facilities of a registered clearing agency:

> [A] transaction which is settled or cleared through the facilities of a registered clearing agency shall be exempt from the provisions of section (e) of this rule.

Therefore, book-entry deliveries through the facilities of a registered securities depository would not be subject to the provisions of section (e) of the rule; book-entry deliveries through the facilities of an entity not registered as a clearing agency, however, would be subject to the provisions of section (e).

The Board has recently become aware that certain securities are currently being traded and sold in the secondary market which are available only in book-entry form through a system managed by a book-entry agent (generally a commercial bank) which is not registered as a clearing agency. Since inter-dealer deliveries of such securities are subject to the "good delivery" provisions of section (e), and since section (e) does not currently include appropriate standards for deliveries of book-entry form securities, the Board believes that it would be appropriate to amend section (e) to include a provision setting forth such standards.

The draft amendment proposes a minimum standard for delivery of book-entry form securities for which the book-entry agent is not a registered clearing agent. The draft amendment would permit the seller to deliver to the purchaser in satisfaction of its delivery obligation on the transaction all documents, in proper form, necessary to transfer ownership of the securities on the books maintained by the book-entry agent, with the purchaser having responsibility for subsequently completing the book-entry transfer of the securities. The Board believes that this practice, which, the Board understands, has been informally followed by dealers making deliveries of these securities in recent months, accomplishes the minimum necessary to allow transfer of the securities.

The Board is concerned, however, that the absence of any direct involvement of the book-entry agent in this delivery process leaves the process subject to the possibility of inadvertent error or misconduct. For example, an executor of a deceased person's estate might mistakenly conclude from such person's records that certain of these types of book-entry form securities were owned at the time of such person's death, when, in fact, they had been previously sold. If the executor sells such securities, and delivers them by means of documentation, this error might not be discovered until the purchaser attempts to complete the book-entry transfer of the securities. Similar problems could result from fradulent sales by persons seeking to misuse these systems for financial gain. Accordingly, the draft amendment proposes to require that the documentation used in a delivery made pursuant to the draft amendment's provisions must include a statement, placed on the documentation and signed by the book-entry agent, attesting that the person presenting the documentation is currently listed on the books maintained by the agent as the owner of the securities to which the documentation relates.

Comments on the draft amendment should be submitted not later than October 15, 1983, and may be directed to Donald F. Donahue, Deputy Executive Director. Written comments will be available for public inspection.

The Board is of the view that the draft amendment may establish a sufficient standard for deliveries of these types of book-entry form securities. During its deliberation on the draft amendments the Board considered other alternatives,

but concluded that such alternatives may not be feasible at this time. Most particularly, the Board does not at this time believe that it would be appropriate to require the completion of the book-entry transfer as part of the delivery process, since the communications facilities used by the book-entry agents with respect to these types of securities do not (in all cases) appear to permit same-day advice of the completion of the transfer, and, consequently, same-day transmission of payment for the transferred securities. The Board notes, however, that the parties to a transaction could agree that delivery shall be made by the completion of the book-entry transfer, if the system used makes this feasible.

The Board also does not believe that it would be appropriate to extend the exemptive provisions of rule G-12(a)(i) to transactions settled or cleared through agents not registered with the Commission. The Board believes that the establishment of standards applicable to all municipal securities brokers and dealers effecting transactions in these types of securities is necessary to ensure that such transactions can be settled and cleared in a uniform and efficient manner.

August 5, 1983

Text of Draft 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 (v) No change.

(vi) Form of Securities.

(A) Bearer and Registered Form. Delivery of securities which are issuable in both bearer and registered form shall be in bearer form unless otherwise agreed by the parties.

(B) Book-Entry Form. Notwithstanding the other provisions of this section (e), with respect to a security which may be transferred only by bookkeeping entry, without the physical delivery of securities certificates, on books maintained for this purpose by a person who is not a registered clearing agent, the delivery to the purchaser in properly completed form of all documentation necessary to accomplish the book-entry transfer of ownership of such security shall be deemed "good delivery" for purposes of this rule; provided, however, that such documentation must contain a statement, placed on the documentation and signed by the person maintaining the books for such securities, verifying that the person presenting such documentation is identified on the books for such securities as the owner of the securities represented by such documentation.

(vii) through (xvi) No change.

(f) through (l) No change.

*Underlining indicates additions.

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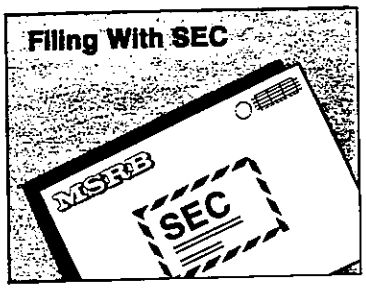

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Rules G-12 and G-15

Proposed Amendments Filed Concerning Confirmations of Transactions in Book-Entry Securities

On August 12, 1983 the Board filed with the Securities and Exchange Commission proposed amendments to the confirmation requirements of Board Rules G-12 and G-15 concerning confirmations of transactions in securities which are available only in book-entry form. The text of the proposed amendments follows this notice. The proposed amendments will not become effective until 60 days following the date of Commission approval.

Board rules G-12 and G-15 set forth certain requirements concerning the information to be provided on inter-dealer and customer confirmations, respectively. Among other matters, confirmations are required to include, if the securities involved in the transaction are in registered form, a designation of that fact. The proposed amendments would include in rules G-12 and G-15 a requirement that the transaction confirmation indicate that the securities involved in the transaction are available only in book-entry form, if that is the case.

Since late 1982 certain new issues of municipal securities have been issued in "book-entry" form. Purchasers of such securities do not receive certificates representing their holdings, but rather have their holdings reflected in bookkeeping entries on records maintained by a book-entry agent (either a registered securities depository or a commercial bank). Subsequent sales of such securities would necessitate the transmission of instructions to the book-entry agent authorizing the book-entry transfer of ownership of the securities to the new owner.

The Board believes that purchasers of municipal securities available only in book-entry form should be advised of this fact on the confirmation, since purchasers of municipal securities customarily expect to be delivered (or to have access to) securities certificates. The Board believes that, in those relatively rare instances where securities are available only in book-entry form (and where this expectation will not be met), purchasers should be advised of this fact, since their inability to obtain physical securities may raise concerns which might affect their investment decision, such as possible restrictions on their ability to hypothecate or otherwise pledge the securities. Further, purchasers may need to make special arrangements to take delivery of book-entry securities, particularly if they are not participants in a depository.

The Board also notes that the proposed amendments are consistent with the current confirmation disclosures required for securities in registered form. Book-entry form securities are an exception in the municipal marketplace, as registered form securities have historically been and will, for a time, continue to be.

August 12, 1983

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

Text of Proposed Amendments*

Rule G-12. Uniform Practice

(a) and (b) No change.

(c) Dealer Confirmations.

(i) through (v) No change.

(vi) In addition to the information required by paragraph (v) above, each confirmation shall contain the following information, if applicable:

(A) No change.

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

(C) through (F) No change.

(d) through (l) No change.

Rule G-15. Customer Confirmations

(a) and (b) No change.

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

(i) No change.

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

(iii) through (vii) No change.

(d) through (i) No change.

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Notice of Approval

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Rules G-12 and G-15

Amendments Approved Requiring That Confirmations Disclose Interest Payment Basis if Other Than Semi-Annual

On August 1, 1983, the Securities and Exchange Commission approved certain amendments to Board rules G-12 and G-15. The amendments become effective on October 3, 1983.

Board rules G-12 and G-15 set forth certain requirements concerning the information to be provided on inter-dealer and customer confirmations, respectively. Among other matters, confirmations are required to state any unusual aspects of the securities relating to the payment of principal or interest. The amendments require that, if the securities involved in a transaction are periodic-interest securities paying interest on other than a semi-annual basis (*e.g.*, annually or quarterly), the confirmation of the transaction must state the basis on which interest is paid.

Since the payment of interest on a periodic-interest security on a basis other than semi-annually is very unusual, the Board believes that purchasers of periodic-interest municipal securities, both municipal securities brokers and dealers and investors, should be advised of this exception on the confirmation of their transaction. The payment of interest on an alternative basis may be of concern to such purchasers, particularly investors, since this alternative payment basis may not accord with their cash flow needs or reinvestment plans,[1] or may have implications for their operational procedures (*e.g.*, if securities paying interest on a more frequent cycle are available only in registered form, they would have to be transferred quickly to prevent misdirection of the next interest payment).

August 3, 1983

Text of Amendments*

Rule G-12. Uniform Practice

(a) and (b) No change.

(c) Dealer Confirmations.

(i) through (v) No change.

(vi) In addition to the information required by paragraph (v) above, each confirmation shall contain the following information, if applicable:

(A) through (D) No change.

(E) any special instructions or qualifications, or factors affecting payment of principal or interest, such as (1) "ex legal," or (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," or (4) with respect to securities with periodic interest payments, if such securities pay interest on other than a semi-annual basis, a statement of the basis on which interest is paid; and

(F) No change.

(d) through (l) No change.

Rule G-15. Customer Confirmations

(a) and (b) No change.

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

(i) through (v) No change.

(vi) any special instructions or qualifications, or factors affecting payment of principal or interest, such as (A) "ex legal," or (B) if the securities are traded without interest, "flat," or (C) if the securities are in default as to the payment of interest or principal, "in default," or (D) with respect to securities with periodic interest payments, if such securities pay interest on other than a semi-annual basis, a statement of the basis on which interest is paid, and

(vii) No change.

(d) through (i) No change.

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

[1]Many investors seek to maximize their total rate of return by reinvesting interest income when it is paid. A variance in the payment cycle, therefore, will substantially affect the investor's total rate of return on the investment, since there would be less (or more) frequent opportunity for reinvestment than the investor might anticipate.

*Underlining indicates addition. Certain material which is deleted by the amendments has been omitted.

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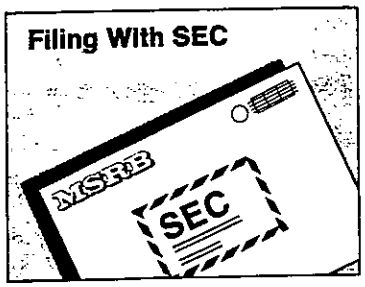

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Rules G-12 and G-15

Proposed Amendments Filed Concerning Transactions in Zero Coupon, Compound Interest and Multiplier Securities

The Board recently filed with the Securities and Exchange Commission certain amendments to rules G-12 on uniform practice and G-15 on customer confirmations concerning the information to be set forth on both inter-dealer and customer confirmations of transactions in zero coupon, compound interest and multiplier securities.

Certain new issues of municipal securities sold in recent years have had several maturities with a stated interest rate of 0% ("zero coupon" securities); such securities are sold at deep discounts, with the investor's return received in the form of an accretion of this discount to par. Other issues, often described as "compound interest" or "multiplier" securities, are issued with a stated rate of investment return; an investor purchasing such a security would receive at maturity a single payment (the "maturity value") representing both return of the initial principal value and payment of an investment return accrued over the life of the instrument at a stated compounded rate.

In response to industry inquiries, the Board published a notice dated October 8, 1982 concerning the application of Board rules to transactions in zero coupon, compound interest and multiplier securities.[1] The notice, in part, reminded dealers that the Board's fair dealing rule, rule G-17, imposes an obligation on persons selling these securities to the public to adequately disclose their important characteristics. For example, it is essential that investors be made aware that such securities do not pay interest on a periodic basis. Further, the call features applicable to zero coupon, compound interest, and multiplier securities usually permit such securities to be called at a price substantially below the maturity value; the Board is of the view that this is material information which should be disclosed at or before the time of trade. Additionally, because the tax considerations associated with investments in these types of securities are complex, investors purchasing such securities should be advised, at minimum, of the need to consult with tax advisors on the proper treatment of income received from such investments.

The Board's notice also solicited comments on draft proposed amendments to the Board's confirmation rules designed to accommodate the unusual characteristics of these securities. After consideration of the comments received, the Board has proposed amendments to its confirmation rules for all transactions in securities which mature in more than two years and pay investment return solely at redemption. The proposed amendments relate to the following items of information:

Maturity Value of the Securities

The proposed amendments will require that the quantity of securities shown on confirmations of transactions in zero coupon, compound interest and multiplier securities shall be the maturity value of the securities.

Board rules G-12 and G-15 currently require that confirmations of transactions state the "par value of the securities." The proposed amendments reflect the fact that zero coupon, compound interest and multiplier securities are likely to be traded and sold on the basis of their maturity value.[2]

Description of the Interest Rate

The proposed amendments will provide that the interest rate shown on confirmations of transactions in the subject securities shall be stated as "0%."

Board rules G-12 and G-15 require that inter-dealer and customer confirmations set forth certain descriptive details about the securities, including the "interest rate." The current confirmation rules require that a confirmation of a transaction in a zero coupon security state the interest rate as "0%." The Board has concluded that confirmations of transactions in compound interest and multiplier securities also should identify the "interest rate" as "0%." The Board believes that such information will help to alert purchasers to the fact that they will not receive "interest" payments in the same fashion as with more traditional municipal securities, and also may prevent customers from mistakenly assuming that the subject securities pay "interest" in addition to the investment return included in the maturity value.

Questions regarding this notice may be addressed to Angela Desmond, General Counsel.

[1]The October 1982 notice is set forth in *MSRB Reports*, vol. 2, no. 2 (October/November 1982) at pp. 13–15 as well as in the "New Developments" section of the CCH *MSRB Manual*, ¶10,225.

[2]The Board notes that, in the case of a zero coupon security, the maturity value of the security will be the same as the "par value," since such securities are initially sold at a stated (deep discount) percentage of "par value."

Transaction Moneys

The proposed amendments will provide that, with respect to confirmation disclosure of transaction moneys for transactions involving zero coupon, compound interest and multiplier securities, a figure representing accrued interest is not required to be included on the confirmation.

Rules G-12 and G-15 currently require that confirmations show the "total dollar amount of [the] transaction," as well as its components—an "extended principal amount" and an "amount of accrued interest." Since zero coupon securities have a stated interest rate of "0%," they would not have "accrued interest." A confirmation of a transaction in such securities, therefore, would set forth an "extended principal amount" and an (equal) "total dollar amount," with both the initial principal and the investment return (accreted discount) included in this single sum. The Board is of the view that a similar method of presenting the money detail on the confirmation of a transaction in a compound interest or multiplier security should be permitted. As is the case with zero coupon securities, the price of a transaction in these instruments will be based upon the present value of the single "maturity value" amount. It appears questionable that breaking up this single present value amount into initial principal and "accrued interest" components would provide additional meaningful information to the customer.

Yield and Dollar Price Calculation

The proposed amendments clarify the application of the yield disclosure requirements of rule G-15 to customer confirmations of transactions in the subject securities by deleting the adjective "premium" in the rule's reference to the computation of yield "to premium call."

Rule G-15 requires that customer confirmations must set forth the yield and the related dollar price. The yield shown on the confirmation must be the lowest of the yield to premium call, yield to par option, or yield to maturity. This requirement is currently applicable to transactions in zero coupon, compound interest, and multiplier securities and the Board is firmly of the view that the continued application of this requirement is appropriate. As is the case with traditional municipal securities, these types of securities may have call features providing for the call to commence at a premium price (above the compounded or the accreted value of the security as of the call date) which then declines to a price equal to the value of the security as of the call date. Since the latter calls are not really appropriately described as "par options," the deletion of the word "premium" will clarify that a dealer seeking to determine the lowest "yield to call" should take these calls, as well as the premium calls, into consideration.

The proposed amendments include a similar change in the dollar price computation provisions of rule G-12(c)(v)(I) relating to inter-dealer confirmations.

The proposed amendments will not become effective until approved by the Commission.

August 15, 1983

Text of Proposed Amendments*

Rule G-12. Uniform Practice

(a) through (b) No change.

(c) Dealer Confirmations

(i) through (iv) No change.

(v) Each confirmation shall contain the following information:

(A) through (H) No change.

(I) yield at which transaction was effected and resulting dollar price, except in the case of securities which are traded on the basis of dollar price or securities sold at par, in which event only dollar price need be shown (in cases in which securities are priced to ~~premium~~ call or to par option, this must be stated and the call or option date and price used in the calculation must be shown, and where a transaction is effected on a yield basis, the dollar price shall be calculated to the lowest of price to ~~premium~~ call price to par option, or price to maturity);

(J) through (N) No change.

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 pricing information specified in subparagraph (I) nor the accrued interest specified in subparagraph (K). Such information 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 confirmation for a transaction in securities maturing in more than two years and paying investment return solely at redemption shall not show the par value of the securities specified in subparagraph (D) and shall not be required to show the amount of accrued interest specified in subparagraph (K). Such confirmation shall, however, show the maturity value of the securities and specify that the interest rate on the securities is "0%."

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) At or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation of the transaction containing the following information:

(i) through (viii) No change.

(ix) yield and dollar price as follows:

(A) for transactions effected on a yield basis, the yield at which transaction was effected and the resulting dollar price shall be shown. Such dollar price shall be calculated to the lowest of price to ~~premium~~ call, price to par option, or price to maturity.

(B) for transactions effected on the basis of dollar price, the dollar price at which transaction was effected, and the lowest of the resulting yield to ~~premium~~ call, yield to par option, or yield to maturity shall be shown.

(C) for transactions at par, the dollar price shall be shown.

*Underlining indicates new language; broken line indicates deletions.

In cases in which the resulting dollar price or yield shown on the confirmation is calculated to ~~premium~~ call or par option, this must be stated, and the call or option date and price used in the calculation must be shown;

(b) through (d) No change.

(e) The confirmation for a transaction in securities maturing in more than two years and paying investment return solely at redemption shall not show the par value of the securities specified in subparagraph (iv) of paragraph (a) and shall not be required to show the amount of accrued interest specified in subparagraph (ix) of paragraph (a). Such confirmation shall, however, show the maturity value of the securities and specify that the interest rate on the securities is "0%."

(e) through (i) renumbered as (f) through (j). No substantive change.

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Route To:

- ☒ Manager, Muni. Dept.
- ☒ Underwriting
- ☒ Trading
- ☒ Sales
- ☒ Operations
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- ☐ Training
- ☐ Other _____

Rule G-15

Comments Requested on Draft Amendment Concerning Confirmations of Transactions of Zero Coupon, Compound Interest and Multiplier Securities

The Board has approved for circulation this exposure draft of an amendment to Board rule G-15 on customer confirmations. The draft amendment would require the inclusion on confirmations of transactions in zero coupon, compound interest and multiplier securities of a statement calling attention to certain unusual features of these securities.

Rule G-15 requires that a customer confirmation set forth certain information concerning the transaction being confirmed, including information descriptive of the securities involved. The draft amendment is being circulated for public comment prior to further consideration by the Board.

Background

Certain new issues of municipal securities sold in recent years have had several maturities with a stated interest rate of 0% ("zero coupon" securities); such securities are sold at deep discounts, with the investor's return received in the form of an accretion of this discount to par. Other issues, often described as "compound interest" or "multiplier" securities, are issued with a stated rate of investment return; an investor purchasing such a security would receive at maturity a single payment (the "maturity value") representing both return of the initial principal value and payment of an investment return accrued over the life of the instrument at a stated compounded rate.

In response to industry inquiries, the Board published a notice dated October 8, 1982 concerning the application of Board rules to transactions in zero coupon, compound interest and multiplier securities.[1] The notice discussed in detail the application to these securities of the provisions of rules G-12(c) and G-15 concerning information to be included on confirmations of inter-dealer and customer transactions. The Board also solicited comments on draft amendments to these rule provisions. After considering the comments received, the Board determined that, in order to accommodate transactions in zero coupon, compound interest and multiplier securities, its confirmation rules should be amended to

- require that the quantity of securities shown on the confirmation be the maturity value;
- require that the interest rate shown on the confirmation be stated as "0%";
- provide that with respect to confirmation disclosure of the transaction moneys, the inclusion of a single "present value" amount will be sufficient, and, therefore, that a separate figure representing accrued interest need not be shown; and
- include a technical change to eliminate possible confusion regarding the application to securities with "accreted value" calls at prices below 100% of maturity value of the requirements that dollar prices and (in the case of customer transactions) yields be calculated to the lower of call or maturity.[2]

Proposed amendments reflecting these changes have been filed recently with the Securities and Exchange Commission. The proposed amendments will not become effective until approved by the Commission.

The Board's October notice reminded dealers that the Board's fair dealing rule, rule G-17, imposes an obligation on person's selling zero coupon, compound interest and multiplier securities to the public to adequately disclose their important characteristics. For example, it is essential that investors be made aware that, unlike more traditional

All interested persons are invited to submit written comments to the Board on the draft amendment. Written comments will be available for public inspection. Letters of comment should be submitted to the Board on or before October 15, 1983, and should be sent to the attention of Angela Desmond, General Counsel.

[1]The October 1982 notice is set forth in *MSRB Reports*, vol. 2, no. 2 (October/November 1982) at pp. 13–15 as well as in the "New Developments" section of the CCH *MSRB Manual*, ¶10,225.

[2]In view of the redemption price structure of the call provisions on zero coupon, compound interest and multiplier securities, the price or yield to call on a particular transaction might be lower than the price or yield to maturity, even though the transaction is effected at a price below 100. Since heretofore the industry has been accustomed to call provisions at prices at or above 100, industry members should pay particular attention to the processing of transactions in securities with these unusual types of call provisions, to ensure that the dollar price or yield of such transactions is not inadvertently overstated due to a failure to check the price or yield to call.

municipal bonds, these securities do not pay interest on a periodic basis. Further, the call features applicable to zero coupon, compound interest, and multiplier securities usually permit such securities to be called at a price substantially below the maturity value. The Board is of the view 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 further believes that the fact that zero coupon, compound interest and multiplier 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 the call features are so significant, that it may be necessary to require that the information referred to above, in addition to being disclosed at or before the time of trade, also be included on the written confirmations which are sent to customers.

The Draft Amendment

The draft amendment under consideration by the Board would apply to transactions in municipal bonds which mature in more than two years and pay investment return solely at redemption. The draft amendment would 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, 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 draft amendment provides that the following statement appearing in the description field of the confirmation would be deemed to satisfy these requirements: "No periodic payments—callable below maturity value without notice by mail to holder unless registered."

The Board specifically requests comments on whether the form of confirmation currently in use can accommodate such a statement in the description field. The Board also requests comments on a possible alternative which would provide that the requirements of the draft rule could be satisfied by including a legend containing the requisite information on the reverse side of the confirmation, provided that the description field contains a brief statement which calls attention to the legend (*e.g.*, "Important—See Legend ____ Below").

August 15, 1983

Text of Draft Amendment*

Rule G-15. Customer Confirmations

(a) At or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation of the transaction containing the following information:

(i) through (ix) No change.

(b) through (d) No change.

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

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

(ii) shall not be required to show the amount of accrued interest specified in subparagraph (ix) of paragraph (a);

(iii) shall show the maturity value of the securities and specify that the interest rate on the securities is "0%";

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

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

(vi) if the securities are callable, 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 to the following effect will be deemed to satisfy the requirements of subparagraphs (iv), (v) and (vi) above: "No periodic payments—callable below maturity value without notice by mail to holder unless registered."

(f) through (j) No change.

*Underlining indicates additions.

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Request For Comments

Route To:

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Rule G-15

Comments Requested on Standards for Deliveries to Customers

The Board has approved for circulation this exposure draft of amendments to Board rule G-15 which would establish certain standards regarding the clearance and settlement of transactions with customers. These draft amendments are being circulated for public comment prior to further consideration by the Board and filing with the Securities and Exchange Commission.

Board rule G-12 on uniform practice sets forth certain requirements concerning inter-dealer transactions, including provisions specifying the required content of inter-dealer confirmations, provisions establishing standards for physical deliveries of securities between dealers, and provisions relating to other aspects of the clearance and settlement of inter-dealer transactions. In contrast, Board rule G-15 sets forth requirements concerning the content of transaction confirmations sent to customers, but does not set forth specific standards relating to the clearance and settlement of customer transactions (nor does any other Board rule).[1]

The Board believes that it would be helpful to the municipal securities industry and to customers purchasing municipal securities to have specific standards established concerning settlement dates and deliveries of securities on transactions with customers. Further, the Board believes that in certain cases delivery standards different than or in addition to those applicable to inter-dealer deliveries would be appropriate in the case of deliveries to customers. Accordingly, the Board proposes to amend rule G-15 to include a new section setting forth standards for deliveries of securities to customers.[2]

The standards regarding settlement dates and deliveries of securities on transactions with customers set forth in the draft amendments are generally the same as those applicable to inter-dealer deliveries, as set forth in sections (b) and (e), respectively, of Board rule G-12. Set forth below is a description of those aspects of the draft amendments which are significantly different from the standards of the equivalent provisions of rule G-12.

The Scope of the Amendments

The introductory provision of draft section (c) specifies that the standards set forth in section (c) are applicable to a delivery made by a municipal securities broker or dealer to a customer, but not to a delivery made by a customer to a municipal securities professional. Further, this provision clarifies that a customer may establish delivery requirements over and above those specified in the draft amendments.

The introductory provision also states that the draft amendments would apply to a delivery by a municipal securities broker or dealer to "another person acting as agent for [a] customer." Therefore the provisions of the draft amendments would apply to a delivery to a customer's clearing agent or to the customer's account at another institution (including, in the case of a transaction executed by a municipal securities dealer department of a bank, a safekeeping or custodian department affiliated with the bank); the provisions would not apply, however, to a movement of securities into a customer's safekeeping account maintained by the municipal securities broker or dealer executing the transaction.

Standards Regarding Deliveries of Registered Securities

Draft subparagraph (c)(iv)(A) specifies provisions relating to deliveries of securities which are available in both bearer

The Board welcomes comments on the draft amendments from all interested persons. In particular, the Board solicits the views of institutional and individual customers regarding the standards established in the draft amendments. Letters or comment should be submitted to the Board on or before October 15, 1983, and should be sent to the attention of Donald F. Donahue, Deputy Executive Director. Written comments will be available for public inspection.

[1] A September 25, 1981 interpretive letter, however, states that
a dealer knowingly delivering to a customer securities which did not meet the "good delivery" standards of rule G-12(e), including those provisions relating to documents required to accompany delivery, would be acting in violation of Board rule G-17's prohibition against unfair dealing.

[2] The rule would be retitled "Confirmation, Clearance and Settlement of Transactions with Customers." The amendments proposed on March 14, 1983 regarding the use of automated confirmation and settlement systems on certain customer delivery or receipt vs. payment transactions (*see MSRB Reports*, vol. 3, no. 2 (April 1983), pp. 3–5) would also be included in the revised and retitled rule G-15.

and registered form. The provisions of the draft subparagraph are essentially consistent with the comparable provisions of rule G-12; the draft subparagraph makes clear, however, that securities which are required under the Internal Revenue Code to be in registered form in order to preserve the tax exemption of the interest paid on the securities must be delivered in registered form.

Draft paragraph (c)(xii) sets forth certain standards regarding the delivery of registered securities to customers that, in part, differ significantly from the standards applicable to inter-dealer deliveries. In particular, subparagraph (c)(xii)(A) provides that, in the case of a registered security delivered directly to a customer, the delivering municipal securities broker or dealer shall deliver a security "registered in the customer's name or in such name as the customer shall direct." The Board believes that, given the complexities of the transfer process and the possibility of difficulties in completing transfer, the customer should not bear the burden of accomplishing the transfer of the securities.[3]

In the case of a delivery of registered securities to a person acting as agent for the customer, however, subparagraph (c)(xii)(B) of the draft amendments permits delivery of registered securities in "good delivery" form, as well as securities registered in the name of (or as directed by) the customer. The standards for "good delivery" form are specified in items (1) through (6) of the subparagraph, and are the same as those applying to inter-dealer deliveries, as recently amended.[4] The Board is aware that most persons contracting to perform clearing or safekeeping agent functions for customers undertake to provide transfer services as part of the performance of those functions; therefore, there does not appear to be the same need to place responsibility for the transfer on the municipal securities broker or dealer delivering the securities.

Additional Standards Included in the Draft Amendments

The draft amendments also contain two provisions dealing with matters also covered by certain amendments to rule G-12(e) recently proposed or adopted by the Board. Draft subparagraph (c)(iv)(B) sets forth a provision relating to deliveries of securities which are available only in "book-entry form." The draft subparagraph provides that a delivery of securities to the customer shall be made by the book-entry transfer of the securities into the customer's name; in contrast, an amendment to rule G-12(e) recently released by the Board for comment permits inter-dealer deliveries of certain of these types of securities by means of the presentation of the documents needed to accomplish the book-entry transfer.[5]

Draft subparagraphs (c)(vi)(C) and (c)(xii)(C) and (D) set forth provisions relating to the use of interest-payment checks on deliveries of bearer securities with the next-payable coupon detached or on deliveries of registered securities between the record date and the interest payment date. These draft provisions permit the use of post-dated checks (*i.e.*, checks dated as of the interest payment date) on such deliveries: the Board recently approved amendments to rule G-12(e) to permit the use of post-dated checks on deliveries between dealers.[6]

One industry member has proposed in recent correspondence with the Board that dealers be permitted to "net out" the amount of an interest payment against the transaction moneys on transactions with customers, rather than using interest payment checks. Under this approach, for example, a dealer accepting a delivery of registered securities from a customer during the period between the record date and the interest payment date would deduct from the proceeds to be paid to the customer an amount equal to the interest payment to be subsequently received by the customer, rather than receiving from the customer a post-dated check for such interest; similarly, the amount of the interest payment would be deducted from the moneys to be paid by a customer purchasing securities between the record and interest payment dates. The draft amendments would permit the parties to a transaction to agree to follow this procedure; the Board would appreciate comments from industry members, investors, and other interested persons concerning whether the use of this "netting" procedure should be more directly encouraged, or perhaps required, as an alternative to the use of post-dated interest payment checks.

Standards Not Included in the Draft Amendments

Certain of the standards set forth in Board rule G-12(e) with respect to inter-dealer deliveries are not included in the draft amendments. In particular, the draft amendments do not include provisions relating to place and time of delivery, partial deliveries, expenses of shipment, or deliveries involving money differences. The Board believes that such provisions are not appropriate for inclusion in a rule setting standards for deliveries to customers.

August 15, 1983

Text of Draft Amendments*

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

(a) Customer Confirmations.

[Text consists of existing rule G-15, with sections and paragraphs renumbered.]

(b) Settlement Dates.

(i) Definitions. For purposes of this rule, the following terms shall have the following meanings:

(A) Settlement Date. The term "settlement date" shall mean the day used in price and interest computations, which shall also be the day delivery is due unless otherwise agreed by the parties.

(B) Business Day. The term "business day" shall mean a day recognized by the National Association of Securities Dealers, Inc. as a day on which securities transactions may be settled.

[3]The Board notes that the rule would not require that the securities be registered in the customer's name prior to the time the customer pays for the securities.

[4]*See* August 5, 1983 rule G-12 notice—"Amendments Approved Regarding Deliveries of Registered Securities," *MSRB Reports*, vol. 3, no. 5, (September 1983), pp. 7–8.

[5]*See* August 5, 1983 rule G-12 notice—"Comments Requested on Proposed Amendments Concerning Delivery Standards for Book-Entry Securities," *MSRB Reports*, vol. 3, no. 5, (September 1983) pp. 9–10.

[6]*See* August 12, 1983 rule G-12 notice—"Proposed Amendment Filed Regarding Interest Payment Checks," *MSRB Reports*, vol. 3, no. 5, (September 1983), pp. 5–6.

*All language in sections G-15(b) and (c) below is new language.

(ii) Settlement Dates. Settlement dates shall be as follows:

(A) for "cash" transactions, the trade date;

(B) for "regular way" transactions, the fifth business day following the trade date;

(C) for all other transactions, a date agreed upon by both parties.

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

(i) Securities Delivered.

(A) All securities delivered on a transaction shall be identical as to the information set forth in subparagraph (E) of paragraph (a)(i) and, to the extent applicable, the information set forth in subparagraphs (A) and (C) of paragraph (a)(iii). 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 (a)(i)(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.

(ii) Delivery Ticket. A delivery ticket shall accompany the delivery of securities. Such ticket shall contain the information set forth in subparagraphs (A), (B), (D) through (H), (M) and (O) of paragraph (a)(i) and, to the extent applicable, the information set forth in subparagraphs (A), (B), (C), (E), (F) and (G) of paragraph (a)(iii) and shall have attached to it an extra copy of the ticket which may be used to acknowledge receipt of the securities.

(iii) 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, the 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 (a)(iii) of this rule.

(iv) Form of Securities.

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

(B) Book-Entry Form. Notwithstanding the other provisions of this section (C), a delivery of a book-entry form security shall be made only by a book-entry transfer of the ownership of the security to the purchasing customer or a person designated by the purchasing customer. For purposes of this subparagraph a "book-entry form" security shall mean a security which may be transferred only by bookkeeping entry, without the issuance or physical delivery of securities certificates, on books maintained for this purpose by a registered clearing agency or by the issuer or a person acting on behalf of the issuer.

(v) Mutilated Certificates. Delivery of a certificate which is damaged to the extent that any of the following is not ascertainable:

(A) name of issuer;

(B) par value;

(C) signature;

(D) coupon rate;

(E) maturity date;

(F) seal of the issuer; or

(G) certificate number

shall not constitute good delivery unless validated by the trustee, registrar, transfer agent, paying agent or issuer of the securities or by an authorized agent or official of the issuer.

(vi) Coupon Securities.

(A) Coupon securities shall have securely attached to the certificate in the correct sequence all appropriate coupons, including supplemental coupons if specified at the time of trade, which in the case of securities upon which interest is in default shall include all unpaid or partially paid coupons. All coupons attached to the certificates must have the same serial number as the certificate.

(B) Anything herein to the contrary notwithstanding, if securities are traded "and interest" and the settlement date is on or after the interest payment date, such securities shall be delivered without the coupon payable on such interest payment date.

(C) If delivery of securities is due within 30 calendar days prior to an interest payment date, the seller may deliver to the purchaser a draft or bank check of the seller or its agent, payable not later than the interest payment date, in an amount equal to the interest due, in lieu of the coupon.

(vii) Mutilated or Cancelled Coupons. Delivery of a certificate which bears a coupon which 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 (if either the coupon number or the payment date is ascertainable from the coupon, the coupon will not be considered mutilated); or

(D) the fact that there is a signature;

or which coupon has been cancelled, shall not constitute good delivery unless the coupon is endorsed or guaranteed. In the case of damaged coupons, such endorsement or guarantee must be by the issuer or by a commercial

bank. In the case of cancelled coupons, such endorsement or guarantee must be by the issuer or an authorized agent or official of the issuer, or by the trustee or paying agent.

(viii) Delivery of Certificates Called for Redemption. A certificate for which a notice of call has been published on or prior to the delivery date shall not constitute good delivery unless the securities are identified as "called" at the time of trade or the notice of call is applicable to the entire issue of securities. For purposes of this subparagraph an "entire issue of securities" shall mean securities of the same issuer having the same date of issue, maturity date and coupon rate.

(ix) Delivery Without Legal Opinions or Other Documents. Delivery of certificates without legal opinions or other documents legally required to accompany the certificates shall not constitute good delivery unless identified as "ex legal" at the time of trade.

(x) Insured Securities. Delivery of certificates for securities traded as insured securities shall be accompanied by evidence of such insurance, either on the face of the certificate or in a document attached to the certificate.

(xi) Endorsements for Banking or Insurance Requirements. A security bearing an endorsement indicating that it was deposited in accordance with legal requirements applicable to banking institutions or insurance companies shall not constitute good delivery unless it bears a release acknowledged before an officer authorized to take such acknowledgements and was designated as a released endorsed security at the time of trade.

(xii) Delivery of Registered Securities.

(A) Delivery to the Customer. Registered securities delivered directly to a customer shall be registered in the customer's name or in such name as the customer shall direct.

(B) Delivery to an Agent of the Customer. Registered securities delivered to an agent of a customer may be registered in the customer's name or as otherwise directed by the customer. If such securities are not so registered, such securities shall be delivered in accordance with the following provisions:

(1) Assignments. Delivery of a certificate in registered form must be accompanied by an assignment on the certificate or on a separate bond power for such certificate, containing a signature or signatures which correspond in every particular with the name or names written upon the certificate, except that the following shall be interchangeable; "and" or "&"; "Company" or "Co."; "Incorporated" or "Inc."; and "Limited" or "Ltd."

(2) Detached Assignment Requirements. A detached assignment shall provide for the irrevocable appointment of an attorney, with power of substitution, a full description of the security, including the name of the issuer, the maturity date and interest date, the bond or note number, and the par value (expressed in words and numerals).

(3) Power of Substitution. When the name of an individual or firm has been inserted in an assignment as attorney, a power of substitution shall be executed in blank by such individual or firm. When the name of an individual or firm has been inserted in a power of substitution as a substitute attorney, a new power of substitution shall be executed in blank by such substitute attorney.

(4) Guarantee. Each assignment, endorsement, alteration and erasure shall bear a guarantee acceptable to the transfer agent or registrar.

(5) Form of Registration. Delivery of a certificate accompanied by the documentation required in this subparagraph (B) shall constitute good delivery if the certificate is registered in the name of:

(a) an individual or individuals;

(b) a nominee;

(c) a member of a national securities exchange whose specimen signature is on file with the transfer agent or any other municipal securities broker or municipal securities dealer who has filed specimen signatures with the transfer agent and places a statement to this effect on the assignment; or

(d) an individual or individuals acting in a fiduciary capacity.

(6) Certificate in Legal Form. Good transfer of a security in legal form shall be determined only by the transfer agent for the security. Delivery of a certificate in legal form shall not constitute good delivery unless the certificate is identified as being in such form at the time of trade. A certificate shall be considered to be in legal form if documentation in addition to that specified in this subparagraph (B) is required to complete a transfer of the securities.

(C) Payment of Interest. If a registered security is traded "and interest" and transfer of record ownership cannot be or has not been accomplished on or before the record date for the determination of registered holders for the payment of interest, delivery shall be accompanied by a draft or bank check of the seller or its agent, payable not later than the interest payment date, for the amount of the interest.

(D) Registered Securities Traded "Flat." If a registered security is traded "flat" (*i.e.*, is in default in the payment of interest) and transfer of record ownership cannot be or has not been 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, for the amount of the payment to be made by the issuer, unless the security is traded "ex-interest."

(d) Delivery-Versus-Payment Transactions. [Text consists of March 14, 1983 proposal.]

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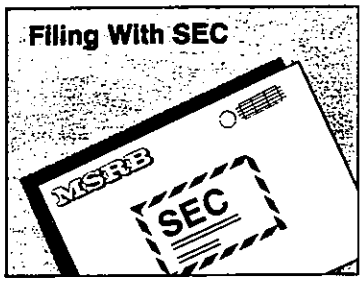

Route To:

- ☐ Manager, Muni. Dept.
- ☐ Underwriting
- ☐ Trading
- ☐ Sales
- ☒ Operations
- ☒ Compliance
- ☐ Training
- ☐ Other _____

Rule G-15

Proposed Amendment Filed Concerning Address and Telephone Number Information on Confirmations

On August 12, 1983 the Board filed with the Securities and Exchange Commission a proposed amendment to rule G-15 on customer confirmations. The proposed amendment will not become effective until approved by the Commission.

Board rule G-15(a)(i) requires a confirmation sent to a customer to state the "name, address and telephone number" of the confirming municipal securities broker or dealer. The requirement that the confirmation provide the "address and telephone number" of the confirming broker or dealer is intended to assist a customer, particularly an individual customer, in communicating with the municipal securities representative servicing his or her account regarding the transaction being confirmed or other matters concerning the account.

The Board is aware that many municipal securities brokers and dealers have begun to use, or to contemplate using, automated confirmation systems in connection with customer transactions. Such systems typically permit the transmission of a confirmation to the customer through the automated facilities of a securities depository or clearing corporation. The Board has recently learned that the confirmations provided by such systems do not include on the confirmation provided to the customer the address and telephone number of the municipal securities broker or dealer transmitting the confirmation.

The proposed amendment would exempt confirmations transmitted through an automated system from the requirement to state the confirming dealer's address and telephone number. The Board has concluded that it is not necessary for such confirmations to state the address and telephone number of the transmitting broker or dealer. Customers who use these automated confirmation systems generally are more sophisticated investors who participate actively in the securities markets, rather than effecting only occasional transactions. In view of their sophistication, therefore, the Board believes that they are likely to know how to contact persons with whom they effect transactions, and, therefore, are unlikely to need these persons' addresses and telephone numbers specified on the confirmation transmitted through the automated system.

The Board notes also that the depositories offering such automated confirmation systems publish directories listing contact personnel and telephone numbers for system participants (*e.g.*, The Depository Trust Company's *ID System Directory*). These directories serve the same purpose as the inclusion of the address and telephone number on the confirmation; the inclusion of such information on the confirmation transmitted through the automated system, therefore, is unnecessary and duplicative.

August 12, 1983

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

Text of Proposed Amendment*

Rule G-15. Customer Confirmations

(a) At or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation of the transaction containing the following information:

(i) name, address, and telephone number of the broker, dealer, or municipal securities dealer, provided, however, that the address and telephone number need not be stated on a confirmation sent through the automated confirmation facilities of a clearing agency registered with the Securities and Exchange Commission;

(ii) through (xiii) No change.

(b) through (i) No change.

*Underlining indicates additions.

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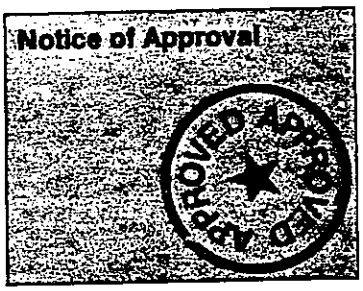

Route To:

- ☒ Manager, Muni. Dept.
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- ☐ Other _____

Rule G-15

Amendments Approved on Yield Disclosure

On August 1, 1983, the Securities and Exchange Commission approved certain amendments to Board rule G-15 concerning the disclosure on customer confirmations of information relating to yield. The amendments become effective on October 3, 1983.

Board rule G-15 requires disclosure on a customer confirmation of the yield and dollar price of a municipal securities transaction. In the case of a transaction effected on the basis of a yield price, the confirmation must state the yield and the resulting dollar price, computed to the lowest of price to premium call, par option or maturity. In the case of a transaction effected on the basis of a dollar price, the confirmation must state the dollar price and the resulting yield, computed to the lowest of yield to premium call, par option or maturity.

The rule also requires confirmation disclosure of the details of a call or option features where the dollar price of a transaction effected on a yield basis was computed to such call or option. Prior to approval of the subject amendment, however, there was no requirement to disclose the details of a call or option feature where the resulting yield of a transaction effected on a dollar basis is computed to such call or option. The amendment which has been approved by the Commission will require such disclosure.

August 15, 1983

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

Text of Amendments*

Rule G-15. Customer Confirmations

(a) At or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation of the transaction containing the following information:

(i) through (viii) No change.

(ix) yield and dollar price as follows:

(A) for transactions effected on a yield basis, the yield at which transaction was effected and the resulting dollar price shall be shown. Such dollar price shall be calculated to the lowest of price to premium call, price to par option, or price to maturity. ~~In cases in which the dollar price is calculated to premium call or par option, this must be stated, and the call or option date and price used in the calculation must be shown.~~

(B) for transactions effected on the basis of dollar price, the dollar price at which transaction was effected, and the lowest of the resulting yield to premium call, yield to par option, or yield to maturity shall be shown; ~~provided, however, that yield information for transactions in callable securities effected at a dollar price in excess of par, other than transactions in securities which have been called or prerefunded, is not required to be shown until October 1, 1984.~~

(C) for transactions at par, the dollar price shall be shown.

In cases in which the resulting dollar price or yield shown on the confirmation is calculated to premium call or par option, this must be stated, and the call or option date and price used in the calculation must be shown;

(x) through (xiv) No change.

(b) through (i) No change.

*Underling indicates additions; broken line indicates deletions.

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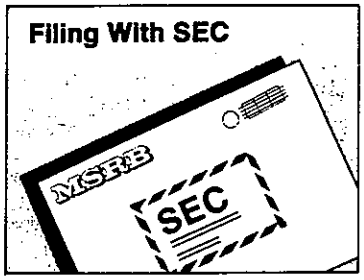

Route To:

- ☒ Manager, Muni. Dept.
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Rule G-25

Proposed Amendment Filed Concerning Guarantees Against Loss

On July 26, 1983, the Board filed with the Securities and Exchange Commission an amendment to rule G-25(b), concerning guarantees against loss. The rule generally prohibits a municipal securities dealer from guaranteeing a customer against loss and provides that "bona fide put options" and "repurchase agreements issued in the ordinary course of business" are not guarantees for purposes of the rule. The rule is anti-manipulative in purpose and was designed in part to prevent a municipal securities representative from inducing customers to purchase or sell securities by making guarantees that its dealer is not aware of or does not intend to honor.

The amendment, which the Board adopted after reviewing comments on proposed amendments to the rule,[1] would require that the terms of all put options and repurchase agreements be provided to customers in writing with or on the confirmations of the transactions and be recorded on dealers' books and records in accordance with the requirements of Board rule G-8(a)(v). The Board is of the view that the amendment will strengthen the anti-manipulative effect of the rule since any put options or repurchase agreements with customers not so disclosed and recorded would be prohibited under the rule. At the same time, the exemptions for put options and repurchase agreements would be preserved thereby permitting municipal securities dealers the flexibility necessary to enter into legitimate financing and other arrangements in the course of doing business.

The amendment will become effective in 60 days after approval by the Commission.

August 15, 1983

Questions concerning the proposed amendment may be directed to Angela Desmond, General Counsel.

Text of Proposed Amendment*

Rule G-25. Improper Use of Assets

(a) No change.

(b) Guaranties. No broker, dealer, or municipal securities dealer shall guarantee or offer to guarantee a customer against loss in

(i) No change.

(ii) a transaction in municipal securities with or for a customer;

~~Bona fide~~ Put options and repurchase agreements ~~issued in the ordinary course of business~~ shall not be deemed to be guaranties against loss if their terms are provided in writing to the customer with or on the confirmation of the transaction and recorded in accordance with rule G-8(a)(v).

(c) No change.

[1]Notice soliciting comments on draft amendment to rule G-25(b) were published in *MSRB Reports*, vol. 2, no. 6 (August 1982) and vol. 3, no. 1 (January 1983).
*Underlining indicates new language; broken line indicates deletions.

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Route To:

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Rule G-12

Letter of Interpretation—When Issued Confirmations on "All or None" Underwritings

I understand that certain . . . firms . . . have raised questions concerning the application of a recent Board interpretive letter to certain types of municipal securities underwritings. I am writing to advise that these questions were recently reviewed by the Board which has authorized my sending you the following response.

The letter in question, reprinted in the Commerce Clearing House *Municipal Securities Rulemaking Board Manual* at ¶3556.55, discusses the timing of the mailing of initial "when, as and if issued" confirmations on "pre-sale" orders to which new issue municipal securities have been allocated. Among other matters, the letter states that such confirmations may not be sent out prior to the date of award of the new issue, in the case of an issue purchased at competitive bid, or the date of execution of a bond purchase agreement on the new issue, in the case of a negotiated issue. [Certain] firms . . . have questioned whether this interpreation is intended to apply to "all or none" underwritings, in which confirmations have been, at times, sent out prior to the execution of a formal purchase agreement.

As the Board understands it, an "all or none" underwriting of a new issue of municipal securities is an underwriting in which the municipal securities dealer agrees to accept liability for the issue at a given price only under a stated contingency, usually that the entire issue is sold within a stated period. The dealer typically "presettles" with the purchasers of the securities, with the customers receiving confirmations and paying for the securities while the underwriting is taking place. Pursuant to SEC rule 15c2-4 all customer funds must be held in a special escrow account for the issue until such time as the contingency is met (*e.g.*, the entire issue is sold) and the funds are released to the issuer; if the contingency is not met, the funds are returned to the purchasers and the securities are not issued.*

The Board is of the view that an initial "when, as and if issued" confirmation of a transaction in a security which is the subject of an "all or none" underwriting may be sent out prior to the time a formal bond purchase agreement is executed. This would be permissible, however, only if two conditions are met: (1) that such confirmations clearly indicate the contingent nature of the transaction, through a statement that the securities are the subject of an "all or none" underwriting or otherwise; and (2) that the dealer has established, or has arranged to have established, the escrow account for the issue as required pursuant to rule 15c2-4.—*MSRB interpretation of October 7, 1982 by Donald F. Donahue, Deputy Executive Director.*

*I note also that SEC rule 10b-9 sets forth certain conditions which must be met before a dealer is permitted to represent an underwriting as an "all or none" underwriting.