

# MSRB REPORTS

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The draft amendments would allow dealers, as an alternative to confirmation disclosure of the source and amount of remuneration received from a party other than the customer in agency transactions, to note that remuneration has been or will be received and that the source and amount of the remuneration is available upon the written request of the customer.

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The amendments would require disclosure by an underwriter to the issuer of any corporate affiliation with the issue's non-dealer financial advisor and place recordkeeping requirements on dealers subject to this provision.

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**Amendments Filed: Rules A-14 and A-15**

The amendments—

- change the due date of the annual fee payment from February 15 to October 31;
- require the annual fee invoice or other written statement to accompany payment of the annual fee; and
- clarify dealers' obligation to notify the Board of any change in status or other changes to information previously provided to the Board pursuant to rule A-12.

## Availability of the Daily List in the Board's Public Access Facility

The Board has been providing to visitors at its Public Access Facility a list of official statements processed each day by 9:00 a.m. the next business day. Starting on April 1, 1991, the Board will make every effort to ensure that a list of all documents received that day is available to visitors at the Facility by 3:00 p.m. On days when it is not possible for the Board to process all documents received by 3:00 p.m., a list of those documents processed by 3:00 p.m. will be made available and a full list of documents received will be available at 9:00 a.m. the next business day.

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### Calendar

- |                    |  |
|--------------------|--|
| <b>February 19</b> | — Effective date of A-14 and A-15 on annual fee and dealer change in status  |
| <b>June 3</b>      | — Comments due on G-15 on disclosure to customers of remuneration  |
| <b>Pending</b>     | — MSIL CDI/ES system<br>— MSIL OS/ARD system<br>— G-36 on delivery of advance refunding documents to the Board<br>— G-23 on activities of financial advisors |



**Route to:**

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

## Disclosure to Customers of Remuneration: Rule G-15

### Comments Requested

The draft amendments would allow dealers, as an alternative to confirmation disclosure of the source and amount of remuneration received from a party other than the customer in agency transactions, to note that remuneration has been or will be received and that the source and amount of the remuneration is available upon the written request of the customer.

The Board requests comments on draft amendments to rule G-15(a)(ii) on customer confirmations. The draft amendments would allow dealers, as an alternative to confirmation disclosure of the source and amount of remuneration received from a party other than the customer in agency transactions, to note that remuneration has been or will be received and that the source and amount of the remuneration is available upon the written request of the customer. All interested parties are invited to submit comments on the draft amendments by June 3, 1991.

### Requirements of Rule G-15(a)(ii)

Rule G-15(a)(ii) requires a dealer effecting a transaction as agent for the customer or as agent for both the customer and another person to note on the customer's confirmation (i) either the name of the person from whom the securities were purchased or to whom the securities were sold for the customer or a statement that this information will be furnished upon request of the customer, and (ii) the source and amount of any commission or other remuneration received or to be received by the dealer in connection with the transaction.<sup>1</sup>

The Board understands that in certain situations where the dealer acts as remarketing agent for the issuer, as well as the customer's agent in a transaction, dealers may not be able to disclose the amount of remuneration from the issuer when that amount is not determined at the time of trade. This can occur, for example, when the dealer's remarketing fee is based on a percentage of the issue's outstanding balance, payable quarterly or at year-end instead of on a per transaction basis. The Board believes that it is important for the dealer to disclose the basis of the fee, even if the exact amount is not yet determined. Thus, the Board has interpreted rule G-15(a)(ii) to allow dealers in such situations to disclose only that there will be a fee and the basis of the fee. For example, the dealer would have to disclose a fee from the issuer of x% of the outstanding balance of the issue, payable quarterly.<sup>2</sup>

### Summary of Draft Amendments and Request for Comments

The draft amendments would allow dealers, as an alternative to confirmation disclosure of the source and amount of remuneration received from a party other than the customer in agency transactions, to note that remuneration has been or will be received and that the source and amount of the remuneration is available upon the written request of the customer.<sup>3</sup> Of course, dealers still would be required to disclose commissions charged to their customers. This would be consistent with the requirement in the SEC's confirmation rule, Rule 10b-10. While the SEC's rule does not apply to municipal securities transactions, the Board believes that consistency with the SEC rule, when possible, would be useful for dealers.

The Board requests comment on the draft amendments. In

**Comments on the draft amendments should be submitted no later than June 3, 1991, and may be directed to Diane G. Klinke, General Counsel. Written comments will be available for public inspection.**

<sup>1</sup> If a dealer acts only as the agent for another person, and not as agent for the customer, rule G-15(a)(ii) would not apply.

<sup>2</sup> Situations involving both fixed and variable elements of the fee paid by an issuer would require the dealer to disclose the fixed amount as well as the basis for the variable amount.

<sup>3</sup> As noted above, if the amount of the remuneration is not determined at the time of the request, the dealer would have to respond by disclosing the basis of the fee.

addition, the Board welcomes all comments on the current provisions of rule G-15(a).

March 14, 1991

**Text of Draft Amendments\***

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

(a) *Customer Confirmations*

(i) No change.

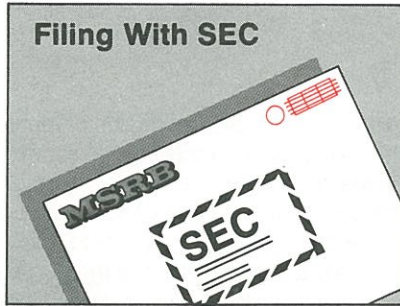
(ii) If the broker, dealer or municipal securities dealer is effecting a transaction as agent for the customer or as agent for both the customer and another person, the confirmation shall set forth (A) either the name of the person from whom the securities were purchased or to whom the securities were sold for the customer or a

statement that this information will be furnished upon the written request of the customer, and (B) the amount of any remuneration received or to be received by the broker, dealer, or municipal securities dealer from the customer in connection with the transaction unless remuneration paid by the customer is determined, pursuant to to a written agreement with the customer, other than on a transaction basis, and (C) the source and amount of any ~~emmission~~ or other remuneration received or to be received by the broker, dealer or municipal securities dealer in connection with the transaction; provided, however, that the written notification may state whether any such remuneration has been or will be received and that the source and amount of such other remuneration will be furnished upon written request of the customer.

(iii) through (ix) No change.

(b) through (e) No change.

\* Underlining indicates new language, strikethrough indicates deletions.



**Route to:**

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

**Activities of Financial Advisors:  
Rule G-23**

**Amendments Filed**

The amendments would require disclosure by an underwriter to the issuer of any corporate affiliation with the issue's non-dealer financial advisor and place record-keeping requirements on dealers subject to this provision.

On March 14, 1991, the Board filed with the Securities and Exchange Commission proposed amendments to rule G-23, on activities of financial advisors. The amendments require disclosure by an underwriter to the issuer of any corporate affiliation with the issue's non-dealer financial advisor and place recordkeeping requirements on dealers subject to this provision. The amendments will become effective upon approval by the Commission. Persons wishing to comment on the amendments should comment directly to the Commission.<sup>1</sup>

**Background**

Rule G-23 establishes disclosure and other requirements for dealers that act as financial advisors to issuers of municipal securities.<sup>2</sup> The rule is designed principally to minimize the *prima facie* conflict of interest that exists when a municipal securities dealer acts as both financial advisor and underwriter with respect to the same issue. Specifically, it requires a financial advisor to alert the issuer to the potential conflict of interest that might lead the dealer to act in its own best interest as underwriter rather than the issuer's best interest.

The Board has been asked whether rule G-23 applies in two situations: (i) when a non-dealer bank acts as financial advisor and a broker-dealer affiliate of the bank wishes to underwrite the issue, or (ii) when a non-dealer subsidiary of a dealer bank acts as a financial advisor and the dealer bank wishes to underwrite the issue. Since the bank and the non-dealer affiliate are not dealers in these instances, they are not subject to the requirements of the rule; however, the Board has stated that disclosure by the dealer to the issuer of its affiliation with the financial advisor would be advisable in these circumstances.

**Summary of Amendments**

The Board determined to codify the above recommendation into the requirements of rule G-23. The Board believes that the issuer should be aware of any corporate affiliation between the financial advisor and the dealer, even if the financial advisor is not a dealer; however, the Board does not believe that it is necessary for the underwriter to comply with all of the disclosure requirements of rule G-23 in this instance. The amendments require disclosure by an underwriter to the issuer of any corporate affiliation with the issue's non-dealer financial advisor. In addition, this disclosure, as well as other disclosures, acknowledgments and consents required by rule G-23, must be maintained in a separate file and in accordance with the provisions of rule G-9, on preservation of records.

**Summary of Comments**

In October 1990, the Board solicited comments on the amendments in an exposure draft<sup>3</sup> and received three comment

**Questions about the proposed amendments may be directed to Ronald W. Smith, Legal Assistant.**

<sup>1</sup> SEC File No. SR-MSRB-91-2. Comments filed with the Commission should refer to the file number.

<sup>2</sup> Rule G-23 does not apply to "independent" financial advisors, *i.e.*, those advisors that are not associated with a broker, dealer or municipal securities dealer. The rule also does not apply when, in the course of acting as an underwriter, a municipal securities dealer renders financial advice to an issuer, including advice with respect to the structure, timing, terms and other similar matters concerning a new issue of municipal securities.

<sup>3</sup> *MSRB Reports*, Vol. 10, No. 4 at 5-7 (October 1990). The exposure draft also asked for comments on draft amendments to rule G-23 which would treat placement agents the same as negotiated underwriters. These draft amendments are still being considered by the Board.

letters.<sup>4</sup> Only one commentator commented specifically on the proposed amendments and it noted its support of the amendments.

March 14, 1991

## Text of Proposed Amendments\*

### G-23 Activities of Financial Advisors

(a) - (c) No change.

(d) *Underwriting Activities.* No broker, dealer, or municipal securities dealer that has a financial advisory relationship with respect to a new issue of municipal securities shall acquire as principal either alone or as a participant in a syndicate or other similar account formed for the purpose of purchasing, directly or indirectly, from the issuer all or any portion of such issue, or arrange for such acquisition or participation by a person controlling, controlled by, or under common control with such broker, dealer, or municipal securities dealer, unless

(i) - (ii) No change.

The limitations and requirements set forth in this section (d) shall also apply to any broker, dealer, or municipal securities dealer controlling, controlled by, or under common control with the broker, dealer, or municipal securities dealer having a financial advisory relationship. The use of the term "indirectly"

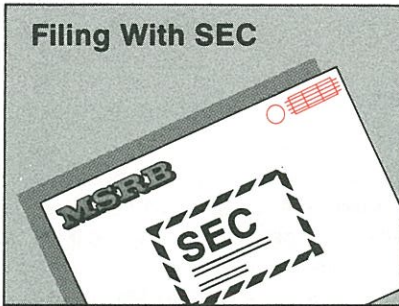
in this section (d) shall not preclude a broker, dealer, or municipal securities dealer who has a financial advisory relationship with respect to a new issue of municipal securities from purchasing such securities from an underwriter, either for its own trading account or for the account of customers, except to the extent that such purchase is made to contravene the purpose and intent of this rule. ~~Each broker, dealer, and municipal securities dealer subject to the provisions of this section (d) shall maintain a copy of the written disclosures, acknowledgments and consents required by this section in a separate file and in accordance with the provisions of rule G-9.~~

(e) *Disclosure to Issuer of Corporate Affiliation.* If the financial advisor for the issue is not a broker, dealer or municipal securities dealer, and the broker, dealer or municipal securities dealer that acquires the issue or arranges for such acquisition pursuant to section (d) of this rule is controlling, controlled by, or under common control with such financial advisor, the broker, dealer or municipal securities dealer must disclose this affiliation in writing to the issuer prior to the acquisition and the issuer has expressly acknowledged in writing to the broker, dealer, or municipal securities dealer receipt of such disclosure.  
(f) *Each broker, dealer, and municipal securities dealer subject to the provisions of sections (d) or (e) of this rule shall maintain a copy of the written disclosures, acknowledgments and consents required by these sections in a separate file and in accordance with the provisions of rule G-9.*

(e) through (f) renumbered (g) through (h)

<sup>4</sup> The comment letters are available for inspection at the Board's offices.

\* Underlining indicates additions, strikethrough indicates deletions.



**Route to:**

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

## Annual Fee and Dealer Notification of Change in Status: Rules A-14 and A-15

### Amendments Filed

**The amendments—**

- change the due date of the annual fee payment from February 15 to October 31;
- require the annual fee invoice or other written statement to accompany payment of the annual fee; and
- clarify a dealer's obligation to notify the Board of any change in status or other changes to information previously provided to the Board pursuant to rule A-12.

On February 19, 1991, the Board filed with the Securities and Exchange Commission (SEC) amendments to rule A-14, on the annual fee, and rule A-15, on notification to Board of change of status.<sup>1</sup> The amendments change the due date of the annual fee payment, require the annual fee invoice or other written statement to accompany payment of the annual fee, and clarify a dealer's obligation to notify the Board of a change in status or other changes to the information previously provided to the Board pursuant to rule A-12. The amendments also contain technical changes to rules A-14 and A-15. The amendments took effect upon filing pursuant to Section 19(b)(3)(A) of the Act as they are concerned solely with the administration of the Board.

### Background

Board rule A-12 requires a broker, dealer, or municipal securities dealer (dealer), prior to engaging in a municipal securities business, to pay a \$100 initial fee to the Board and submit a written statement setting forth the name, address and SEC registration number of the dealer. Rule A-14 requires dealers to

send a \$100 annual fee to the Board no later than February 15, accompanied by a written statement similar to that required in rule A-12. The purpose of the initial and annual fees is to defray the costs of the Board's communications with those dealers that are qualified to conduct a municipal securities business. Rule A-15 provides a procedure for dealers to notify the Board if they cease to conduct a municipal securities business. The rule also states that a dealer that provides such notification to the Board still is obligated to pay the fees owed to the Board at the time of filing the notification.

### Amendments to Rule A-14

The Board initially relied on dealers to submit payment of the annual fee accompanied by a written statement of the dealer's name, address and SEC registration number. In 1980, the Board began to send invoices to dealers for the annual fee and this has provided an efficient recordkeeping means for the collection of the fee. The amendments to rule A-14 modify the rule to state that a dealer may return the payment of the annual fee either with the invoice or a written statement with the required information. If the invoice is not received by a dealer for any reason (e.g., the dealer did not notify the Board of a change of address), the dealer still is obligated to pay the fee. Thus, the rule still provides a means for the dealer to make payment of the fee accompanied by a written statement.

Rule A-14 currently requires payment of the annual fee by February 15, and the invoices have been mailed in mid-January each year. When the Board changed its accounting from a calendar to a fiscal year, it did not also revise the annual fee payment schedule. Many dealers, aware that the Board's fiscal year begins October 1, have questioned why they do not receive an invoice for their annual fees closer to that date. The amendments modify the due date for payment of the annual fee

**Questions about the amendments may be directed to Ronald W. Smith, Legal Assistant.**

<sup>1</sup> SEC File No. SR-MSRB-91-1.

from February 15 to October 31; therefore, the invoices will be sent around October 1.

**Amendments to Rule A-15**

Each year a number of dealers return the annual fee invoice noting that they are no longer conducting a municipal securities business and will not be making payment of the fee. A great amount of administrative time is spent contacting these dealers to explain that, because they did not notify the Board prior to the end of its fiscal year that they were no longer conducting a municipal securities business, the annual fee is due. The amendments make clear that a dealer must notify the Board when it ceases to conduct a municipal securities business. Thus, the section currently in the rule concerning the dealer's obligation to pay any Board fees owed at the time of filing of the notification would clearly apply to such a situation.

Rule A-15(c) currently reiterates the procedure a dealer follows to notify the Board that it will be conducting a municipal securities business after it previously had notified the Board that it would cease engaging in a municipal securities business. Typically, this type of situation occurs when firms merge and begin operation as a new dealer registered with the SEC under a new registration number. This language is being deleted because of the strengthened language in rule A-15(a) concerning the requirement to notify the Board of a termination in municipal securities business. Revised rule A-15(c) requires dealers to notify the Board of any name change or change of address. This requirement will provide administrative efficiency in communicating with dealers.

\* \* \*

All dealers having notified the Board that they are conducting a municipal securities business will be receiving an annual fee invoice for the 1991-92 fiscal year around October 1, 1991. A dealer that has ceased engaging in a municipal securities business must notify the Board of this fact prior to the end of the current fiscal year (September 30, 1991); otherwise, payment of the annual fee for the 1991-92 period will be due on October 31, 1991.

**February 19, 1991**

**Text of Amendments\***

**Rule A-14 Annual Fee**

~~(a) Annual Fee.~~ In addition to any other fees prescribed by the rules of the Board, each ~~municipal securities broker, dealer~~ and municipal securities dealer shall pay an annual fee to the Board of \$100, with respect to each fiscal year of the Board in which the ~~municipal securities broker, dealer~~ or municipal securities dealer conducts a municipal securities business. Such fee must be received at the office of the Board in Washington, D.C. no later than ~~February 15~~ October 31 of the fiscal year for which the fee is paid, accompanied by the invoice sent to the broker, dealer or municipal securities dealer by the Board, or a written statement setting forth the name, address and Commission registration number of the ~~municipal securities broker, dealer~~ or municipal securities dealer on whose behalf the fee is paid.

**Rule A-15 Notification to Board of Change of Status Notification to Board of Termination of Municipal Securities Business and Change of Name or Address**

~~(a) Procedure for Notifying Board of Termination.~~ A ~~person broker, dealer, or municipal securities dealer~~ that ceases to be a ~~municipal securities broker or municipal securities dealer~~ may engaged in a municipal securities business must promptly notify the Board of such ~~person's broker's, dealer's or municipal securities dealer's~~ change of status by filing with the Board at its office in Washington, D.C. a written statement setting forth such ~~person's broker's, dealer's or municipal securities dealer's~~ name, address and Commission registration number and the fact that such ~~person broker, dealer or municipal securities dealer~~ is not a municipal securities broker or municipal securities dealer no longer engaging in a municipal securities business.

~~(b) Obligation to Pay Fees.~~ A ~~person broker, dealer, or municipal securities dealer~~ that files notification with the Board pursuant to paragraph (a) of this rule shall be obligated to pay the fees owed to the Board at the time of filing of such notification.

~~(c) Notification of Further Change of Status.~~ ~~Prior to acting as a municipal securities broker or municipal securities dealer, a person that has filed notification with the Board pursuant to paragraph (a) of this rule shall notify the Board that such person is a municipal securities broker or municipal securities dealer by following the procedure set forth in Board rule A-12.~~ Notification of Name or Address Change. Each broker, dealer or municipal securities dealer which has followed the procedure set forth in Board rule A-12 shall notify the Board promptly of any changes to the information required by rule A-12.

\* Underlining indicates additions; strikethrough indicates deletions.



**Route to:**

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

## Securities That Prepay Principal

### Notice

**The Board alerts dealers to their disclosure responsibilities with respect to securities that prepay principal.**

The Board has become aware of several issues of municipal securities that prepay principal to the bondholders over the life of the issue. These securities are issued with a face value that equals the total principal amount of the securities. However, as the prepayment of principal to bondholders occurs over time, the "unpaid principal" associated with a given quantity of the securities becomes an increasingly lower percentage of the face amount. The Board believes that there is a possibility of confusion in transactions involving such securities, since most dealers and customers are accustomed to municipal securities in which the face amount always equals the principal amount that will be paid at maturity.

Because of the somewhat unusual nature of the securities, the Board believes that dealers should be alert to their disclosure responsibilities. For customer transactions, rule G-17 requires that the dealer disclose to its customer, at or prior to the time of trade, all material facts with respect to the proposed transaction. Because the prepayment of principal is a material feature of these securities, dealers must ensure that the customer knows that securities prepay principal. The dealer also

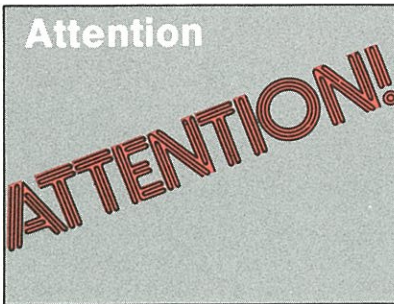
must inform the customer of the amount of unpaid principal that will be delivered on the transaction.

For inter-dealer transactions, there is no specific requirement for a dealer to disclose all material facts to another dealer at time of trade. A selling dealer is not generally charged with the responsibility to ensure that the purchasing dealer knows all relevant features of the securities being offered for sale. The selling dealer may rely, at least to a reasonable extent, on the fact that the purchasing dealer is also a professional and will satisfy his need for information prior to entering into a contract for the securities. Nevertheless, it is possible that non-disclosure of an unusual feature such as principal prepayment might constitute an unfair practice and thus become a violation of rule G-17 even in an inter-dealer transaction. This would be especially true if the information about the prepayment feature is not accessible to the market and is intentionally withheld by the selling dealer. Whether or not non-disclosure constitutes an unfair practice in a specific case would depend upon the individual facts of the case. However, to avoid trade disputes and settlement delays in inter-dealer transactions, it generally is in dealers' interest to reach specific agreement on the existence of any prepayment feature and the amount of unpaid principal that will be delivered.

March 19, 1991

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





**Route to:**

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

## Supervisory Requirements Regarding Insider Information

Section 15(f) of the Securities Exchange Act of 1934 was adopted in 1988 as part of the Insider Trading and Securities Fraud Enforcement Act of 1988. It states that:

Every registered broker or dealer shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such broker's or dealer's business, to prevent the misuse in violation of this title, or the rules or regulations thereunder, of material, nonpublic information by such broker or dealer or any person associated with such broker or dealer. The Commission, as it deems necessary or appropriate in the public interest or for the protection of investors, shall adopt rules or regulations to require specific policies or procedures reasonably designed to prevent misuse in violation of this title (or the rules or regulations thereunder) of material, nonpublic information.

In adopting this provision, Congress noted that "there is a need for an affirmative statutory obligation for every broker, dealer and investment advisor to design effective procedures to restrict and monitor access to . . . [material, nonpublic] information and prevent insider trading."<sup>1</sup> A firm that fails to comply with this statutory obligation will "be subject to Commission or SRO action . . . and potentially subject to a [civil] fine under the new

Section 21A of the Exchange Act."<sup>2</sup>

Congress also stated that Section 15(f):

does not set forth specific policies and procedures that are required of every [firm]. Rather, . . . the question of what policies and procedures are reasonable for a particular firm may involve consideration of the differing business operations, organizational structure, scope and nature of the firm's business. Nevertheless, the Committee expects that institutions subject to . . . this provision will adopt policies and procedures appropriate to restrict communication of nonpublic information and to monitor its dissemination, such as restraining access to files likely to contain such information; providing continuing education programs concerning insider trading; restricting or monitoring trading in securities relating to which the firm's employees possess nonpublic information; and vigorously monitoring and reviewing trading for the account of the firm or of individuals.<sup>3</sup>

**Questions about this provision should be directed to the SEC's Office of Trading Practices at (202) 272-2880.**

<sup>1</sup> H.R. Rep. No. 910, 100th Cong. at 15 (1988)

<sup>2</sup> *Ibid.* at 21.

<sup>3</sup> *Ibid.*



**Route to:**

- Manager, MuniDept.
- Underwriting
- Trading
- Sales
- Operations
- Public Finance
- Compliance
- Training
- Other

**Financial Statements—Fiscal Years  
Ended September 30, 1990 and 1989**

Coopers  
& Lybrand

certified public accountants

Report of Independent Accountants

To the Members of the  
Municipal Securities Rulemaking Board, Inc.

We have audited the accompanying balance sheets of the Municipal Securities Rulemaking Board, Inc. as of September 30, 1990 and 1989, and the related statements of revenues and expenses and change in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits using generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board, Inc. as of September 30, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Washington, D.C.  
October 26, 1990

**MUNICIPAL SECURITIES RULEMAKING BOARD, INC.**  
**BALANCE SHEETS**  
September 30, 1990 and 1989

**ASSETS**

	<u>1990</u>	<u>1989</u>
Cash and cash equivalents (Note 1)	\$ 186,386	\$ 126,174
Investments (Note 1)	2,838,177	3,322,600
Assessment fees receivable (Note 1)	288,627	132,288
Accrued interest receivable	55,264	73,230
Other assets	38,986	17,297
Office furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$375,068 in 1990 and \$305,278 in 1989 (Note 1)	<u>219,290</u>	<u>114,303</u>
	<u>\$3,626,730</u>	<u>\$3,785,892</u>

**LIABILITIES AND FUND BALANCE**

Accounts payable	\$ 62,006	\$ 78,336
Accrued salaries and vacation pay	41,992	56,320
Deferred rent credit (Note 2)	<u>127,794</u>	<u>158,794</u>
	231,792	293,450
Commitments (Notes 2 and 5)		
Fund balance	<u>3,394,938</u>	<u>3,492,442</u>
	<u>\$3,626,730</u>	<u>\$3,785,892</u>

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

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.  
STATEMENTS OF REVENUES AND EXPENSES AND  
CHANGE IN FUND BALANCE  
for the years ended September 30, 1990 and 1989

	<u>1990</u>	<u>1989</u>
<b>Revenues:</b>		
Assessment fees (Note 1)	\$2,482,909	\$1,201,776
Annual fees (Note 1)	277,800	280,400
Initial fees (Note 1)	24,900	34,000
Investment income	267,010	296,379
Board manuals and other	<u>71,882</u>	<u>50,245</u>
	<u>3,124,501</u>	<u>1,862,800</u>
<b>Expenses:</b>		
Salaries and employee benefits (Note 3)	964,181	987,323
Board and committee	727,850	721,483
Operations (Note 2)	543,434	427,888
Education and communication	324,459	328,814
Professional services	582,186	136,728
Depreciation and amortization (Note 1)	<u>79,895</u>	<u>79,759</u>
	<u>3,222,005</u>	<u>2,681,995</u>
 Excess of expenses over revenues	 (97,504)	 (819,195)
Fund balance, beginning of year	<u>3,492,442</u>	<u>4,311,637</u>
Fund balance, end of year	<u>\$3,394,938</u>	<u>\$3,492,442</u>

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

**MUNICIPAL SECURITIES RULEMAKING BOARD, INC.**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended September 30, 1990 and 1989**

	<u>1990</u>	<u>1989</u>
Cash flows from operating activities:		
Excess of expenses over revenues:	\$ (97,504)	\$ (819,195)
Adjustments to reconcile excess of expenses over revenues to net cash used by operating activities:		
Depreciation and amortization	79,895	79,759
(Increase) decrease in accounts receivable	(156,339)	5,917
Decrease (increase) in interest receivable	17,966	(547)
(Increase) decrease in other assets	(21,689)	8,143
Decrease in accounts payable and accrued expenses	(30,658)	(9,899)
Decrease in deferred credit	<u>(31,000)</u>	<u>(31,000)</u>
Total adjustments	<u>(141,825)</u>	<u>52,373</u>
Net cash used by operating activities	<u>(239,329)</u>	<u>(766,822)</u>
Cash flows from investing activities:		
Acquisition of office equipment	(184,979)	(46,843)
Proceeds from sale of office equipment	97	291
Purchases of U.S. Treasury Notes	(944,094)	(1,863,000)
Maturities of U.S. Treasury Notes	1,450,000	2,450,000
Amortization of investment discount	<u>(21,483)</u>	<u>(4,956)</u>
Net cash provided by investing activities	<u>299,541</u>	<u>535,492</u>
Net increase (decrease) in cash and cash equivalents	60,212	(231,330)
Cash and cash equivalents, beginning of year	<u>126,174</u>	<u>357,504</u>
Cash and cash equivalents, end of year	<u>\$ 186,386</u>	<u>\$ 126,174</u>

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

**MUNICIPAL SECURITIES RULEMAKING BOARD, INC.**  
**NOTES TO FINANCIAL STATEMENTS****1. Accounting policies**

The Municipal Securities Rulemaking Board (the Board) was established in 1975 pursuant to authority granted by the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975, as an independent, self-regulatory organization charged with rulemaking responsibility for the municipal securities industry. Effective May 17, 1989, the Board became incorporated as a nonprofit, non-stock corporation in the Commonwealth of Virginia.

**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. The fee charged was .002% and .001%, respectively, on all such sales for the years ended September 30, 1990 and 1989. Revenue from assessment fees is recognized upon the sale of the issue and is payable within 30 days of settlement between the underwriter and 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 Securities and Exchange Commission.

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

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.  
NOTES TO FINANCIAL STATEMENTS

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Investments

Investments in securities are stated at amortized cost, which approximates market value.

Equipment, improvements, related depreciation and amortization

Furniture and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease period or the estimated useful life of the improvement.

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any profit or loss arising from such disposition is included as income or expense.

Cash and cash equivalents

The Board considers money market funds cash and cash equivalents for financial statement reporting purposes.

2. Lease agreements

On November 16, 1984, the Board leased new office space under a lease agreement expiring in November 1994. This agreement calls for the Board to receive a rent credit equal to one-half of the base monthly rent for the first 30 months of the lease. As a result, the monthly rental payments were \$9,350 through May 1987 and are \$18,700 a month for the remainder of the lease term, subject to an annual escalation based on the Consumer Price Index and a proportionate share of the increase in the costs of operating the building. For financial reporting purposes, the Board is recognizing rental expense evenly during the 10-year lease term at \$16,105 a month. The Board is required to maintain an irrevocable letter of credit of \$18,700, in lieu of a security deposit, payable to the lessor as part of the lease agreement. The lease may be renewed at the Board's option, for a period of five years, in accordance with the terms set forth in the lease agreement.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.  
NOTES TO FINANCIAL STATEMENTS

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On August 7, 1990, the Board amended its existing lease agreement, allowing for 2,313 additional square feet of office space. Initial base monthly rent is \$4,530, with annual escalations similar to those of the existing lease agreement. The Board is committed to this arrangement until August 31, 1992, at which time it shall have the option to extend the lease agreement.

Total lease expense for office space and equipment for the years ended September 30, 1990 and 1989, was \$290,887 and \$271,213, respectively.

3. Retirement plans

The Board has a defined-contribution retirement plan. 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. Cost of the plan was approximately \$68,000 in both 1990 and 1989.

The Board also has a deferred compensation plan which covers all employees. The Board contributes \$.50 for every \$1 contributed by an employee, with a maximum Board contribution of 2% of the employee's annual salary. The cost of this plan was approximately \$13,000 in both 1990 and 1989.

4. 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 has been made as of September 30, 1990 and 1989, since the Board believes that any unrelated business income is not significant.

5. MSIL Technical Support Agreement

On September 1, 1989, the Board entered into an agreement with an independent contractor which provides for

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.  
NOTES TO FINANCIAL STATEMENTS

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the delivery of products and technical services in support of its development of the MSIL (Municipal Securities Information Library), which collects, stores, and disseminates official statements and advance refunding documents.

On August 22, 1990, the Board amended the agreement, increasing estimated total costs for this cost plus fixed fee contract to \$766,860, with the fixed fee component of \$43,144. For the year ended September 30, 1990, \$428,169 of costs were incurred on this contract in the development of MSIL. Payment terms provide for the monthly billing of the contractor's actual costs plus a proportionate amount of the fixed fee. The duration of the contract is through April 1, 1992.

The conditions of the contract allow for either party to terminate the agreement at any time provided one party states an effective termination date in its written notice thereon.

## New Issue of *MSRB Manual*

The updated soft-cover edition of the *MSRB Manual*, dated April 1, 1991, now is available.

The *MSRB Manual*, published by Commerce Clearing House, includes the Securities Exchange Act of 1934, the Securities Investor Protection Act of 1970, Board rules and interpretations, pertinent regulations of other agencies and samples of forms.

Copies of the updated *Manual* may be obtained from the Board's offices by submitting a completed order form along with payment in full for the amount due. An order form is located on page 23 of this issue. The cost of the *Manual* is \$5.00.

## Publications List

### Manuals and Rule Texts

#### **MSRB Manual**

Soft-cover edition containing the text of MSRB rules, interpretive notices and letters, samples of forms, texts of the Securities Exchange Act of 1934 and of the Securities Investor Protection Act of 1970, as amended, and other applicable rules and regulations affecting the industry. Reprinted semi-annually.

April 1, 1991 ..... \$5.00

#### **Glossary of Municipal Securities Terms**

Glossary of terms (adapted from the State of Florida's *Glossary of Municipal Bond Terms*) defined according to use in the municipal securities industry.

1985 ..... \$1.50

#### **Professional Qualification Handbook**

A guide to the requirements for qualification as a municipal securities representative, principal, sales principal and financial and operations principal, with questions and answers on each category. Includes sections on examination procedures, waivers, disqualification and lapse of qualification, the text of MSRB qualification rules and a glossary of terms.

1990 ..... 5 copies per order ..... no charge

Each additional copy ..... \$1.50

#### **Manual on Close-Out Procedures**

A discussion of the close-out procedures of rule G-12(h)(i) in a question and answer format. Includes the text of rule G-12(h)(i) with each sentence indexed to particular questions, and a glossary of terms.

January 1, 1985 ..... \$3.00

#### **Arbitration Information and Rules**

Based on SICA's *Arbitration Procedures* and edited to conform to the Board's arbitration rules, this pamphlet includes the text of rules G-35 and A-16, a glossary of terms and list of other sponsoring organizations.

1990 ..... no charge

#### **Instructions for Beginning an Arbitration**

Step-by-step instructions and forms necessary for filing an arbitration claim.

1989 ..... no charge

#### **The MSRB Arbitrator's Manual**

The Board's guide for arbitrators. Based on SICA's *The Arbitrator's Manual*, it has been edited to conform to the Board's arbitration rules. It also contains relevant portions of the *Code of Ethics for Arbitrators in Commercial Disputes*.

January 1990 ..... \$1.00

### Reporter and Newsletter

#### **MSRB Reports**

The MSRB's reporter and newsletter to the municipal securities industry. Includes notices of rule amendments filed with and/or approved by the SEC, notices of interpretations of MSRB rules, requests for comments from the industry and the public and news items.

Quarterly ..... no charge

### Examination Study Outlines

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

#### **Study Outline: Municipal Securities Representative Qualification Examination**

Outline for Test Series 52.

November 1989 ..... no charge

#### **Study Outline: Municipal Securities Principal Qualification Examination**

Outline for Test Series 53.

July 1990 ..... no charge

### Brochure

#### **MSRB Information for Municipal Securities Investors**

Investor brochure describing Board rulemaking authority, the rules protecting the investor, arbitration and communication with the industry and investors. Use of this brochure satisfies the requirements of rule G-10.

1 to 500 copies ..... no charge

Over 500 copies ..... \$.01 per copy

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