

MSRB REPORTS

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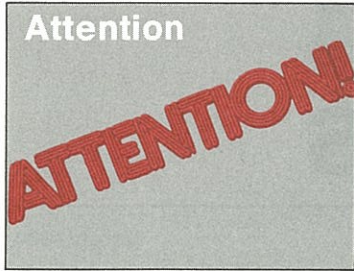
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Transfer Extension for Close-Out Procedures Expires

The provision in rule G-12(h)(i)(B)(2) that provided a 10-day extension of the delivery deadline to parties receiving certain notices of close-out for municipal securities in transfer expired on December 31, 1985. The Board adopted the provision during the initial implementation of the registration requirements incorporated in the Tax Equity and Fiscal Responsibility Act of 1982. The transfer extension was subject to an automatic sunset date.

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Publications

On pages 25 and 27 of this issue are the Board's updated Publications List and a Publications Order Form to be used when ordering MSRB publications. All orders for publications that are priced **must** be submitted by mail along with payment for the full amount due. Requests for priced publications will not be honored until payment is received. Checks should be made payable to the "Municipal Securities Rule-making Board" or "MSRB."

Calendar

- February 24**—Effective date of G-34 on dissemination of CUSIP numbers and initial trade dates for new issues
- February 25**—Effective date of G-26 on customer account transfers
- February 26**—Effective date of G-12 on concession disclosure for zero coupon, compound interest and multiplier securities
- February 28**—WALL trades eligible for NSCC comparison
- March 21**—Recommendations due for Board nomination
- March 28**—Comments due on G-12 and G-15 draft amendments on automated clearance
- May 15**—Comments due on G-33 price calculation method for securities paying periodic interest with an initial non-interest paying period
- Pending**
 - G-11 on disclosure requirements for syndicate managers
 - G-7 on information concerning associated persons
 - G-35 on arbitration



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DTC Policy Statement on Bearer Securities Made Depository Eligible Between Trade Date and Settlement Date

Rules G-12(f)(ii) and G-15(d)(iii) require certain municipal securities transactions to be settled by book-entry if the securities involved in the transactions are eligible for depository settlement. The following is an excerpt from a March 14, 1986, DTC Important Notice to participants explaining the procedure by which bearer municipal securities are made eligible at DTC based on trading activity reported by automated comparison and confirmation systems.

... Because of an automated eligibility system installed in October 1985 with the strong support of muni dealer and broker Participants, issues are frequently made eligible between the date DTC Participants traded them and the settlement date. Because Rules G-12 and G-15 of the Municipal Securities Rule Making Board (MSRB) generally require all trades between Participants which are made in depository-eligible muni securities to settle by book-entry, recently some Participants have requested information on how this eligibility program works so that their staffs can prepare better for book-entry settlements as called for under the MSRB rules. This notice describes the eligibility procedures and advises Participants which issues are not being made eligible because of varying exception conditions.

DTC has been making eligible bearer muni issues which have trading activity. From trades entered by brokers and dealers into the National Securities Clearing Corporation (NSCC) Municipal Bond Comparison System and DTC's Institutional Delivery (ID) system, DTC's systems identify ineligible muni issues and query the Kenny Information Systems database to determine whether or not the issue is in bearer form. With certain exceptions, bearer issues are then automatically made DTC-eligible before settlement date.

Each day issues are reviewed for eligibility if there were at least two separate trade inputs for each issue submitted to NSCC or one trade submitted to ID the prior day. This results in between 350 to 500 bearer issues (an issue is defined as one CUSIP number) which are reviewed for eligibility. All bearer issues are then made eligible with the following exceptions:

- a) Temporarily DTC cannot automatically make eligible any issue which has an interest payment date within nine weeks of the trade input date because of conflicts with DTC's dividend systems. *This exception is scheduled to be eliminated by the end of the third quarter.*
- b) Bearer muni warrants.
- c) Issues in default because they conflict with DTC's dividend systems.
- d) Issues, such as muni notes, which settle in same day funds.
- e) Issues which have already been redeemed or fully called but which are still trading, presumably because the two firms involved in the trade are unaware of the issue's status.
- f) Munis which have interest rates which fluctuate each payment period, again because they conflict with DTC's dividend systems.
- g) Issues which have certificates in various denominations rather than a single denomination like \$5,000. A change is being made to DTC's systems so such issues may be made eligible.
- h) Multipurpose bonds where each purpose has a different redemption agent.
- i) Issues which have put option features and the put or tender agent has not agreed to sign DTC's Letter of Representation which DTC requires to make such issues eligible.

Although this appears to be an extensive list, once the systems changes are made to eliminate exception (a), only 2% of each day's issues will not be made eligible because of these exceptions. Of that percentage, almost all of the exceptions are attributable equally to reasons (f) and (i). Therefore after exception (a) is eliminated, Participants can assume that roughly 98% of all bearer issues input to ID or submitted twice to NSCC's system will be DTC eligible.

This program does not apply to registered munis, most of which are made eligible through DTC's Underwriting Service. Registered issues, both new and previously outstanding, must satisfy two criteria: 1) transfer agents must

be regulated by the Securities and Exchange Commission (SEC) or, if not, must agree in writing to meet SEC transfer turnaround rules, and 2) paying agents must agree to pay to DTC interest payments on payable date in next-day funds.

For further information on this notice, please contact John Colangelo, Vice President, at (516) 227-4004 or Dennis J. Dirks, Vice President-Operations, at (212) 558-8484.

DTC Policy Statement on Bearer Securities Made Depository Eligible
Between Trade Date and Settlement Date

As a result of an agreement with the Depository Trust Company (DTC), the following is an update on the DTC policy statement regarding the treatment of bearer securities made depository eligible between trade date and settlement date.

Because of an agreement with the Depository Trust Company (DTC), the following is an update on the DTC policy statement regarding the treatment of bearer securities made depository eligible between trade date and settlement date. The agreement provides that, for the purpose of the DTC policy statement, the term "bearer securities" shall include any security which is not registered with the SEC and which is not a security of a corporation or other entity which is not a member of the DTC.

DTC has agreed to accept for deposit any bearer security which is not registered with the SEC and which is not a security of a corporation or other entity which is not a member of the DTC, provided that the security is not a security of a corporation or other entity which is not a member of the DTC.

The agreement provides that, for the purpose of the DTC policy statement, the term "bearer securities" shall include any security which is not registered with the SEC and which is not a security of a corporation or other entity which is not a member of the DTC.

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Disclosure of Uncertain Tax Status of 1986 Issues: Rule G-17

Summary of Interpretation

Dealers must disclose to customers the uncertain federal tax status and its possible effect on the value of certain 1986 issues at or before the time of trade.

The Board has received inquiries whether municipal securities brokers and dealers should disclose to customers at or prior to the time of trade, and/or note on customer confirmations, the uncertain tax status of 1986 issues of municipal securities under pending legislation that would amend the Internal Revenue Code. Under this pending legislation, there is some uncertainty whether the interest paid on certain issues of municipal securities could be deemed to be subject to federal income taxation and, if so, whether any such issues will be deemed to be taxable retroactive to their date of issuance. As a result, the Board understands that a number of 1986 new issues of municipal securities have been delivered with legal opinions noting the uncertain federal tax status of the securities if such legislation is adopted.

The Board wishes to remind the industry of the application of rule G-17, on fair dealing, in connection with transactions in 1986 issues with customers. Rule G-17 provides

In the conduct of its municipal securities business, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.

The Board is of the view that the uncertain federal tax status of certain 1986 issues of municipal securities is material to an investor's investment decision about these securities and must be disclosed to customers at or before execution of a transaction in such securities. The customer also should be alerted to the probable effect on the value of the securities of a subsequent determination that these securities are taxable.

With respect to confirmation disclosure, Board rule G-15(a) contains no specific requirement for dealers to disclose on customer confirmations the existence of a legal opinion noting the uncertain tax status of the security.¹ The Board understands that some dealers are considering providing some type of written disclosure of this information on or with the confirmations of transactions in such securities so that customers are provided with a written record of this information. A dealer has discretion to include such information in the description area of the confirmation if it deems it advisable; however, confirmation disclosure does not eliminate the duty of a dealer adequately to explain a security to a customer at or before execution of the transaction.

March 7, 1986

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

¹Of course, appropriate legal opinions must be delivered to the customer with the security.



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Confirmation Disclosure Requirements for Callable Securities: Rules G-12 and G-15

Summary of Interpretation

Confirmations that include specific call information not required to be included under the Board's confirmation rules also must identify the noted call and include a notation that other call features may exist.

Recently, the Board has received inquiries concerning the application of its inter-dealer and customer confirmation rules, rules G-12(c) and G-15(a) respectively, to municipal securities subject to call features. In particular, the Board has been made aware of instances in which dealers note one call date and price, usually the first in-whole call, on inter-dealer and customer confirmations without noting that the call information relates to the first in-whole call or that the bonds are otherwise callable.

Rules G-12(c) and G-15(a) require that confirmations set forth a

description of the securities, including . . . if the securities are . . . subject to redemption prior to maturity (callable) . . . , an indication to such effect. . . .

Thus, municipal securities subject to in-whole or in-part calls must be described as callable. Rules G-12(c) and G-15(a) also require dealers, when securities transactions are effected

on a yield basis, to set forth a dollar price that has been computed to the lowest of the price to call, price to par option, or price to maturity; rule G-15 requires that confirmations of customer transactions effected on a dollar price disclose a yield in a similar manner. These rules provide that when a price or yield is calculated to a call, this must be stated, and the call date and price used in the calculation must be shown.¹ These are the only instances in which specific call features must be identified on a confirmation.

The Board understands that confusion may arise when specific call features are noted on confirmations without an adequate description of such information. The Board has determined that confirmations that include specific call information not required to be included under the Board's confirmation rules also must include a notation that other call features exist and must provide clarifying information about the noted call, e.g. "first in-whole call." These disclosures should be sufficient to ensure that purchasing dealers and customers will be alerted to the need to obtain additional information.

The Board cautions dealers to ensure that confirmations of municipal securities with call features clearly describe the securities as "callable." If this information is not included on inter-dealer confirmations, or if specific call information is erroneously noted on the confirmation, purchasing dealers have the right to reclaim the securities under rule G-12(g)(iii)(C)(3).

February 20, 1986

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

¹In addition, rule G-15(a)(iii)(D) requires a legend to be placed on customer confirmations of transactions in callable securities which notes that "Call features may exist which could affect yield; complete information will be provided upon request."

Notice of Approval



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Dissemination of CUSIP Numbers and Initial Trade Dates for New Issues: Rule G-34

Amendment Approved

Managing underwriters are required to communicate CUSIP numbers and the initial trade date for new issues to syndicate and selling group members on the initial trade date.

On February 24, 1986, the Securities and Exchange Commission approved an amendment to rule G-34 on CUSIP numbers which requires a managing underwriter to disclose CUSIP numbers and the date that trading begins in a new issue of municipal securities (initial trade date) to syndicate and selling group members on the initial trade date.¹ The amendment is intended to facilitate use of the automated comparison system for when, as and if issued (when-issued) transactions, and was effective upon approval by the Commission.

Background

Rule G-34 requires a municipal securities dealer acting as an underwriter of a new issue to apply to the Board or its designee (currently the CUSIP Service Bureau) for assignment of CUSIP numbers to the issue.² The automated comparison system for when-issued transactions requires that a dealer submitting a transaction to the system include the CUSIP number for the issue, which means that dealers must have access to CUSIP numbers for a new issue at the time that trading in the issue begins.³

In addition, since many dealers wish to begin trading in an issue as soon as possible, it is necessary for the industry to be advised by the underwriters of the date when trading begins in an issue. The Board has interpreted "trade date,"

for competitive issues, to be no earlier than the date of award, and, for negotiated issues, no earlier than the date of the execution of the contract to purchase the issue. The Board also has interpreted rule G-17, on the conduct of municipal securities business, to prohibit the sending of when-issued confirmations prior to these dates.⁴ Although managing underwriters will know the date of award or the execution of the contract to purchase the issue, other dealers with pre-sale orders also will need to know the "initial trade date" to determine when trades can be submitted to the automated comparison system.

Summary of Amendment

The amendment requires managing underwriters to communicate CUSIP numbers and the initial trade date to syndicate members and to selling group members on the initial trade date. The initial trade date is defined as, for competitive issues, either the date of award or the first date allocations are made to syndicate or selling group members, whichever date is later, and, for negotiated issues, either the date on which the contract to purchase the securities from the issuer is executed or the first date allocations are made to syndicate or selling group members, whichever date is later.

The amendment is designed to ensure that syndicate members and selling group members have information necessary for timely submission of transactions to the automated comparison system. If the amendment does not result in adequate dissemination of this information to the municipal securities market, the Board will consider other measures to accomplish this end, such as a requirement that managing underwriters publish the information through channels generally available to the industry.

February 28, 1986

Questions concerning the amendment may be directed to Harold L. Johnson, Assistant General Counsel.

¹SEC Release No. 34-22938 (February 24, 1986).

²In a negotiated issue the underwriter must apply to the CUSIP Service Bureau for CUSIP numbers at a time sufficient to ensure that the numbers will be assigned on or prior to the date that the contract to purchase the securities from the issuer is executed. For competitive issues the rule requires municipal securities dealers serving as financial advisors to issuers to ensure that CUSIP numbers are assigned prior to the date of award. If an application for CUSIP numbers for a competitive issue has not been made in a time sufficient to ensure assignment on or prior to the date of award, rule G-34 requires the underwriter to apply for CUSIP numbers at a time sufficient to ensure assignment on or prior to the date of award. See *MSRB Reports*, vol. 6, no. 1 (January 1986) at 19-20.

³The CUSIP Service Bureau disseminates CUSIP numbers that have been assigned during the previous week in weekly supplements to the *CUSIP Directory* and arranges for some CUSIP numbers assigned two business days prior to be published in *The Blue List of Current Municipal Offerings*, a daily publication of Standard and Poor's Corporation.

⁴See MSRB Interpretation of April 30, 1982, *MSRB Manual* (CCH) ¶3556 at 3559-19.

Text of Amendments*

G-34. CUSIP Numbers and Dissemination of Initial Trade Date Information

(a)-(b) No change.

(c) Each municipal securities broker or municipal securities dealer who acquires, whether as principal or agent, a new issue of municipal securities from the issuer of such securities for the purpose of distributing the new issue shall on the initial trade date communicate the following information to syndicate and selling group members:

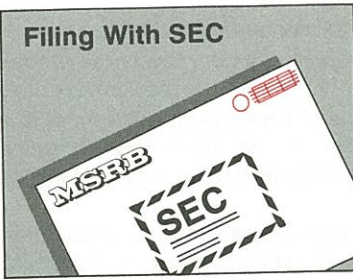
(i) the CUSIP number or numbers assigned to the issue and descriptive information sufficient to identify the CUSIP

number corresponding to each part of the issue assigned a specific CUSIP number; and

(ii) the initial trade date. For purposes of this paragraph (c), initial trade date shall mean, for competitive issues, either the date of award, or the first date allocations are made to syndicate or selling group members, whichever date is later, and, for negotiated issues, either the date on which the contract to purchase the securities from the issuer is executed, or the first date allocations are made to syndicate or selling group members, whichever date is later.

(d) (e) No change.

*Underlining indicates new language; broken rule indicates deletions.



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**Disclosure Requirements for
Syndicate Managers: Rule G-11**

Amendments Filed

Syndicate managers would be required to:

- provide a written summary to syndicate members of all allocations accorded priority over syndicate members' take-down orders within two business days following the date of sale of a new issue, and
- provide syndicate members with the identities of persons placing group or related portfolio orders at or before final settlement.

On April 3, 1986, the Board filed with the Securities and Exchange Commission amendments to rule G-11 on syndicate practices.¹ The amendments would require syndicate managers, within two business days following the date of sale of a new issue, to disclose in writing to syndicate members a summary of all allocations of securities accorded priority over syndicate members' take-down orders. The amendments also would delete the current requirement that managing underwriters provide to syndicate members certain written information pertaining to syndicate allocations within 10 business days following the date of sale and would substitute a requirement that the information be provided at or before final settlement of the syndicate account. The amendments will become effective upon their approval by the Commission.

Background

Rule G-11 requires syndicates to establish priorities of orders submitted to the syndicate and to make certain disclosures designed to provide syndicate members with information sufficient to understand and evaluate syndicate practices. In June 1985, the Board requested views of interested persons on rule G-11,² and on August 21, 1985, met with industry members to discuss possible modifications of the rule. Based on the comments received on rule G-11, the Board in September published for comment draft amendments to the rule³ and received three written comments on the draft amendments. After reviewing the comments received

on the draft amendments and all other comments received during the review process, the Board has adopted the amendments described below.

Summary of Amendments

The amendments would require syndicate managers, within two business days following the date of sale, to provide a written summary listing by priority all allocations of securities which were accorded priority over members' take-down orders, indicating the price, aggregate maturity value and maturity date of each maturity so allocated.⁴ This amendment is designed to provide syndicate members with a summary of certain order and allocation information early enough to help them frame orders and understand syndicate operations. The summary should indicate the aggregate maturity value, maturity date and the price of each maturity allocated on a priority basis, but need not provide the identity of the persons placing priority orders. The summary would include allocations of securities through the end of the order period or, if the syndicate does not have an order period, through the first business day following the date of sale.

Although one of the commentators on the draft amendment questioned the benefits of receiving this information two days after the date of sale, the Board concluded that such information would be more useful to syndicate members if received at this time, rather than 10 days after the date of sale, as required under the current rule. Two commentators stated that it would be difficult in some cases to communicate the information in writing to syndicate members on the second day following the date of sale. The Board expects that syndicate managers utilizing electronic means of communicating information to syndicate members also will use this means to communicate the required disclosures. The Board, however, notes that mailing of the disclosures within two business days following date of sale will comply with the rule if the syndicate manager also makes the required information available by telephone to syndicate members requesting it within two business days following the date of sale.

The amendments would require that managers provide written information about the identities of persons placing certain group or related portfolio orders at or before final

Questions about the amendments may be directed to Angela Desmond, General Counsel.

¹SEC Filing No. SR-MSRB-86-8. Comments filed with the SEC concerning these amendments should refer to the filing number.

²MSRB Reports, vol. 5, no. 4, (June 1985) at 5-6. The Board received nine comment letters. The comment letters are available at the Board's offices and may be reviewed by interested persons.

³MSRB Reports, vol. 5, no. 6, (November 1985) at 5-8. The comment letters are available at the Board's offices and may be reviewed by interested persons.

⁴Rule G-11(g) currently requires this information to be provided in writing within 10 business days after the date of sale.

settlement of the account rather than within 10 business days following the date of sale. Rule G-11(g) currently requires a manager, within 10 days following the date of sale, to provide members with written information concerning the identities of persons submitting group orders and related portfolio orders to which securities are allocated. The Board continues to believe that syndicate members have the right to know the identities of persons who place group and related portfolio orders because such orders are for the benefit of the whole syndicate. Based on the information received during its general review of G-11, however, the Board concluded that these disclosures are not critical to the framing of syndicate members' orders and proposed that the information be provided, along with final accounting information, at or before the final settlement of a syndicate account,⁵ rather than 10 days after the date of sale.⁶ The two commentators on this provision of the draft amendments were divided as to its merits. The Board continues to believe that it would be appropriate for managers to disclose the identities of persons placing group orders and related portfolio orders at or before settlement of the syndicate, when other final accounting information is provided.

March 17, 1986

Text of Draft Amendments*

G-11. Sales of New Issue Municipal Securities During the Underwriting Period

(a)-(f) No change.

(g) Disclosure of Allocation of Securities. The senior syndicate manager shall, within ~~ten~~ two business days following the date of sale, disclose to the other members of the syndicate, in writing, ~~the following information concerning the allocation~~ a summary, by priority category, of all allocations of securities which are accorded priority over members' take-down orders indicating the aggregate par value, maturity date and price of each maturity so allocated, including any allocation to an order confirmed at a price other than the original list price. The summary shall include allocations of securities to orders submitted through the end of the order period or, if the syndicate does not have an order period, through the first business day following the date of sale.

~~(i) the identity of each related portfolio, municipal securities investment trust, or accumulation account referred to in section (b) above submitting an order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated;~~

~~(ii) the identity of each person submitting a group order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated except that this paragraph shall not apply to the senior syndicate manager of a qualified note syndicate as defined in paragraph (a)(x) above; and~~

~~(iii) a summary, by priority category, of the allocation of securities to other orders which, under the priority provisions, were entitled to a higher priority than a member's "take-down" order, including any order confirmed at a price other than the original list price, indicating the aggregate par value and maturity date of each maturity so allocated.~~

(h) Disclosure of Syndicate Expenses and Other Information. At or before the final settlement of a syndicate account, the senior syndicate manager shall furnish to the other members of the syndicate:

(i) an itemized statement setting forth the nature and amounts of all actual expenses incurred on behalf of the syndicate. Notwithstanding the foregoing, any such statement may include an item for miscellaneous expenses, provided that the amount shown under such item is not disproportionately large in relation to other items of expense shown on the statement and includes only minor items of expense which cannot be easily categorized elsewhere in the statement. Discretionary fees for clearance costs to be imposed by a syndicate manager and management fees shall be disclosed to syndicate members prior to the submission of a bid, in the case of a competitive sale, or prior to the execution of a purchase contract with the issuer, in the case of a negotiated sale. For purposes of this section, the term "management fees" shall include, in addition to amounts categorized as management fees by the syndicate manager, any amount to be realized by a syndicate manager and not shared with the other members of the syndicate, which is attributable to the difference in price to be paid to an issuer for the purchase of a new issue of municipal securities and the price at which such securities are to be delivered by the syndicate manager to the members of the syndicate; and

(ii) a summary statement showing:

(A) the identity of each related portfolio, municipal securities investment trust, or accumulation account referred to in section (b) above submitting an order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated;

(B) the identity of each person submitting a group order to which securities have been allocated as well as the aggregate par value and maturity date of each maturity so allocated except that this paragraph shall not apply to the senior syndicate manager of a qualified note syndicate as defined in paragraph (a)(x) above; and

(C) the aggregate par values and prices (expressed in terms of dollar prices or yields) of all securities sold from the syndicate account. This paragraph shall not apply to a qualified note syndicate as defined in paragraph (a)(x) above.

⁵Rule G-12(j) requires final settlement of a syndicate to occur within 60 days following the date all securities have been delivered by the syndicate or account manager to the syndicate or account members.

⁶The Board also recognizes that the premature disclosure of the identities of persons placing such orders might discourage investors wishing to maintain anonymity from placing such orders.

*Underlining indicates new language; broken rule indicates deletions.



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Price Calculation Method for Securities with an Initial Non-Interest Paying Period: Rule G-33

Comments Requested

The Board proposes a formula for calculating the price of municipal securities with periodic interest payments, but with an initial non-interest paying period.

The Board has received inquiries from several dealers concerning the appropriate formula for calculating the price of securities for which there are no scheduled interest payments for an initial period, generally for several years, after which periodic interest payments are scheduled.¹ These securities, known by such names as "Growth and Income Securities," and "Capital Appreciation/Future Income Securities," function essentially as "zero coupon" securities for a period of time after issuance, accruing interest which is payable only upon redemption. On a certain date after issuance (the interest commencement date), the securities begin to accrue interest for semi-annual payment. The Board is requesting comment on the following proposed price calculation method for such securities.

The formula for calculating the price of securities with periodic interest payments is contained in rule G-33(b)(i)(B)(2). The Board proposes that this formula be used to calculate the price of securities such as those described above, for settlement dates occurring prior to the interest commencement date, by means of the following two-step process. First, a hypothetical price of the securities at

the interest commencement date is calculated using the interest commencement date as the hypothetical settlement date, the interest rate ("R" in the formula) for the securities during the interest payment period and the yield ("Y" in the formula) at which the securities are sold. This hypothetical price is computed to not less than six decimal places, and then is used as the redemption value ("RV" in the formula) in a second calculation using the G-33(b)(i)(B)(2) formula, with the interest commencement date as the redemption date, the actual settlement date for the transaction as the settlement date, and a value of zero for R, the interest rate. The resultant price using the formula in G-33(b)(i)(B)(2) is the correct price of the securities.

The price of such securities for settlement dates occurring after the interest commencement date, of course, should be calculated as for any other securities with periodic interest payments, and the formula in G-33(b)(i)(B)(1) should be used for calculations in which settlement date is six months or less to redemption date.

The Board requests comment from industry members on the accuracy of the above method of calculating the price of securities such as those described. The Board specifically requests comment whether the method conforms to current industry practice (or yields equivalent results), and whether the formula can be used with calculation equipment now generally available in the industry.

February 28, 1986

Comments on the matters discussed in this notice should be submitted not later than May 15, 1986, and may be directed to Harold L. Johnson, Assistant General Counsel. Written comments will be available for public inspection.

¹The proposed interpretation is not intended to apply to securities which have long first coupon periods, but which otherwise are periodic interest paying securities.



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Disclosure of Call Information to Customers: Rules G-15, G-17 and G-19

Dealers are reminded that they must disclose to customers that a security is callable at or before the time of trade and provide more specific information concerning a call feature upon a customer's request.

The Board has been made aware of instances in which dealers are not adequately describing securities to customers at the time of trade and may not disclose that bonds are subject to redemption, in-whole or in-part, prior to maturity. In addition, the Board understands that even when this disclosure is made, and a customer asks for further information concerning the call features, in some instances a dealer may not have this information available.

Rule G-17 of the Board's rules of fair practice requires municipal securities brokers and dealers to deal fairly with all persons and prohibits them from engaging in any deceptive, dishonest, or unfair practice. The Board has interpreted this rule to require that a dealer must disclose, at or before the sale of municipal securities to a customer, all material facts concerning the transaction, including a complete description of the security, and must not omit any material facts which would render other statements misleading. In addition, rule G-19, on suitability, prohibits a municipal securities professional from recommending transactions in municipal securities to a customer unless the professional

has reasonable grounds for making the recommendation in light of information about the security available from the issuer or otherwise and believes that a transaction in the security is suitable for the particular customer.

The fact that a security may be redeemed prior to maturity in-whole, in-part, or in extraordinary circumstances, is essential to a customer's investment decision about the security and is one of the facts a dealer must disclose at the time of trade. In addition, a dealer, if asked by a customer for more specific information regarding a call feature, should obtain this information and relay it to the customer promptly. Moreover, it would be difficult for a dealer to recommend the purchase of a security to a customer without having information regarding the security's call features.

With respect to confirmations, rule G-15(a) requires dealers to note on customer confirmations if a security is subject to redemption prior to maturity (callable) and to include a legend stating that "call features may exist which could affect yield; complete information will be provided upon request." Thus, a customer, upon receipt of the confirmation, may ask for further information on call features, and dealers have a duty to obtain and disclose such information promptly. Of course, a confirmation is not received by a customer until after a transaction is effected and the Board wishes to emphasize that confirmation disclosures do not eliminate the duty of a municipal securities professional to explain the security adequately to a customer.

March 4, 1986

Questions about this notice may be directed to Diane G. Klink, Deputy General Counsel.



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Concession Disclosure for Zero Coupon Securities: Rule G-12

Amendment Approved

Dealers are required to disclose on inter-dealer confirmations the amount of the concession on transactions in zero coupon, compound interest and multiplier securities as a percentage of the bond's price.

On February 26, 1986, the Securities and Exchange Commission approved an amendment to rule G-12(c)(v)(J) regarding disclosure on inter-dealer confirmations of amount of concession on transactions in zero coupon bonds (including "GAINS") and compound interest and multiplier securities. The amendment became effective upon approval by the Commission.

Rule G-12(c)(v)(J) requires dealers to disclose on inter-dealer confirmations the amount of concession on the transaction, if any, per \$1000 par value unless stated to be an aggregate figure. In response to industry inquiries on how the rule applies to zero coupon, compound interest, and multiplier securities, the Board amended rule G-12(c)(v)(J) to require the disclosure of the amount of concession on these securities as a percentage of the bond's price. The new requirement is more consistent with current industry

practice. The Board also was concerned that disclosure of the amount of concession based on the maturity or par value of these securities may be confusing.

February 28, 1986

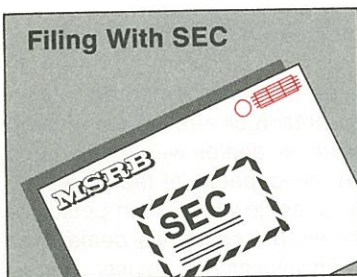
Text of Amendment*

G-12. Uniform Practice

- (a) and (b) No change.
- (c) Dealer Confirmations.
 - (i) through (iv) No change.
 - (v) Each confirmation shall contain the following information:
 - (A) through (I) No change.
 - (J) amount of concession, if any, per \$1000 par value unless stated to be an aggregate figure, provided, however, that for a transaction in securities maturing in two or more years and, at the time of the transaction, paying investment return solely through capital appreciation, the concession, if any, shall be expressed as a percentage of the price of these securities;
 - (K) through (N) No change.
 - (vi) No change.
 - (d) through (l) No change.

Questions about the amendments may be directed to Diane G. Klinke, Deputy General Counsel.

*Underlining indicates additions.



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Information Concerning Associated Persons: Rule G-7

Amendments Filed

The amendments would conform the requirements of the rule that dealers maintain certain records regarding associated persons to recent amendments of SEC rule 17a-3 and provide that, under certain circumstances, a completed Form U-4 would satisfy the rule's requirements.

On March 13, 1986, the Board filed with the Securities and Exchange Commission amendments to rule G-7 which requires brokers, dealers, and municipal securities dealers to maintain certain specified information regarding associated persons.¹ The amendments conform the information specified under rule G-7(b) to recent amendments of SEC recordkeeping rule 17a-3 which, in turn, reflect recent changes to Form U-4 (Uniform Application for Securities Industry Registration or Transfer). The amendments to rule G-7(b) will become effective upon approval by the Commission.

Background

Section (b) of Board rule G-7 specifies the information which brokers, dealers and municipal securities dealers must obtain and retain regarding associated persons. The rule may be satisfied by maintaining a completed Form U-4, provided such form contains all of the information required in Board rule G-7(b).² Recently, however, the National Association of Securities Dealers, Inc. (NASD) and the North American Securities Administrators Association (NASAA) amended Form U-4 with the permission of the SEC. The revisions, with minor exceptions, were incorporated by the SEC into its recent amendments to SEC rule 17a-3(a)(12) regarding mandatory application information. These amendments eliminated certain items of information, which are required to be kept by Board rule G-7(b).

Summary of Amendments

The amendments conform the requirements of Board rule G-7(b) to the recent amendments of SEC rule 17a-3 so that

maintenance of a Form U-4, completed in its entirety, shall continue to satisfy the requirements of the rule.

The amendments to rule G-7(b) affect the following information:

- Education and Business Affiliations. Rule G-7(b) required that information be retained concerning an associated person's education, starting with high school, and that information be retained of all business connections over the previous 10 years, including the reason for leaving, position held, and whether the job was full-time or part-time. Amended rule G-7(b) combines these two information categories and requires the candidate to account for all time over the past 10 years, whether as an employee or student. The amended rule does not require a candidate to disclose the reasons for leaving previous employment.

- Residence. Rule G-7(b) required that information be retained on the associated person's place of residence for the immediately preceding 10 years. The amended rule shortens this time period to five years.

- Injunctions. Rule G-7(b) required that information be retained concerning injunctions, whether permanent or temporary, entered against the associated person or against any broker, dealer, or municipal securities dealer with whom the person has been associated in any capacity. The amended rule requires that only injunctions entered against the associated person in connection with any investment-related activity be retained, and does not require the associated person to disclose injunctions applicable to a firm with which the person has been associated, provided the injunction did not affect the associated person.

The Board notes that the NASD has instituted a program whereby an associated person, who has filed an entire Form U-4 with the NASD, need not again complete an entire Form U-4 should the person change employment or association from one securities firm to another. This permits an associated person to submit to the NASD a partial Form U-4 filing which does not contain the personal data, residential history, and employment and personal history sections otherwise provided in a full filing. The Board wishes to remind the industry that a Form U-4 satisfies the requirements of Board

Questions about the amendments may be directed to Peter H. Murray, Assistant Executive Director.

¹SEC Filing No. SR-MSRB-86-6. Comments filed with the SEC concerning these amendments should refer to the filing number.

²This is true also for Form MSD-4 (Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer).

rule G-7 only in the event that such form contains the information required by rule G-7(b). A partial Form U-4 filing would not satisfy the requirements of Board rule G-7(b).

March 13, 1986

Text of Draft Amendments*

Rule G-7. Information Concerning Associated Persons

(a) No change.

(b) (i)-(ii) No change.

(iii) ~~all educational institutions attended (starting with high school) and whether a degree from each was received;~~ a complete, consecutive statement of employment and personal history for at least the immediately preceding ten years, including full time and part time employment, self-employment, military service, unemployment, or full-time education. For each period of employment, the position held at the time of leaving said employment;

(iv) ~~a complete, consecutive statement of all business connections for at least the immediately preceding ten years, including the reason for leaving each prior employment, the position held at each prior employment, and whether employment was part-time or full-time;~~

(v) (iv) a record of all residential addresses for at least the immediately preceding ten ~~five~~ years;

(vi) through (vii) renumbered (v) through (vi). No substantive change.

(viii) (vii) a record of any permanent or temporary injunction entered against such person ~~or against any broker, dealer, or municipal securities dealer with which such person was associated in any capacity at the time such injunction was entered pursuant to which such person or such broker, dealer or municipal securities dealer was enjoined from acting as an investment adviser, underwriter, broker, dealer, or municipal securities dealer, or as an affiliated person or employee of any investment company, bank, or insurance company, or from engaging in or continuing any conduct or practice in connection with any such activity, or in connection with purchase or sale of any security;~~

(ix) through (xi) renumbered as (viii) through (x). No substantive change.

A completed Form U-4 or similar form prescribed by the Commission or a registered securities association for municipal securities brokers and municipal securities dealers other than bank dealers or, in the case of a bank dealer, a completed Form MSD-4 or similar form prescribed by the appropriate regulatory agency for such bank dealer, containing the foregoing information, shall satisfy the requirements of this paragraph.

(c) through (i) No change.

*Underlining indicates new language; broken rule indicates deletions.



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Customer Account Transfers: Rule G-26

Amendment Approved

The new rule establishes standards for customer account transfers.

On February 25, 1986, the Securities and Exchange Commission approved a new rule G-26 concerning customer account transfers. The new rule is designed to ensure that customer account transfers are accomplished in a timely and efficient manner by municipal securities dealers. The new rule, which parallels rules recently adopted by the New York Stock Exchange (NYSE) and the National Association of Securities Dealers, Inc. (NASD),¹ will ensure that a uniform account transfer standard applies to all municipal securities dealers. This rule is effective immediately.

Background

The securities industry recently has sought to address the problems that sometimes arise when a customer decides to transfer its entire account from one industry member to another. Both the NYSE and NASD have adopted specified procedures for transfers of customer accounts by their members. New Rule G-26 is designed to enhance these developments by ensuring that all municipal securities dealers, including sole municipal securities firms and dealer banks, are subject to uniform customer account transfer requirements. The Board believes that new rule G-26 will benefit the securities industry as a whole by establishing a uniform customer account transfer standard which will provide greater efficiency in the transfer of customer accounts and protect customers who are entitled to prompt action in this area.

Summary of Rule

New rule G-26 requires municipal securities brokers and dealers to cooperate in the transfer of customer accounts. The rule establishes specific time limits, generally 10 days, within which a dealer would be required to transfer a customer account. It limits the reasons for which a dealer may object to an account transfer instruction to those not involving securities positions or money balance differences. The

rule provides for the establishment of fail-to-receive and fail-to-deliver contracts, and requires that fail contracts be resolved in accordance with the Board's close-out procedures, rule G-12(h). In addition, the rule requires the use of automated customer account transfer systems in place at registered clearing agencies when both dealers are participants in the clearing agency.² Finally, the rule requires municipal securities dealers to submit copies of account transfer instructions to the enforcement agency having jurisdiction over the dealer carrying the account, if the enforcement agency requests them.

February 28, 1986

Text of Rule*

Rule G-26. Customer Account Transfer

(a) When a customer whose municipal securities account is carried by a municipal securities broker or dealer (the "carrying party") wishes to transfer its entire account to another municipal securities broker or dealer (the "receiving party") and gives written notice of that fact to the receiving party, both municipal securities brokers or dealers must expedite and coordinate activities with respect to the transfer as follows:

(i) Upon receipt from the customer of a signed broker-to-broker transfer instruction to receive such customer's securities account from the carrying party, the receiving party must immediately submit such instruction to the carrying party. The carrying party must, within five business days following receipt of such instruction, validate and return the transfer instruction to the receiving party (with an attachment reflecting all positions and money balances as shown on its books) or take exception to the transfer instruction for reasons other than securities positions or money balance differences and advise the receiving party of the exception taken.

(ii) The carrying party and the receiving party must promptly resolve any exceptions taken to the transfer instruction.

(iii) Within five business days following the validation of a transfer instruction, the carrying party must complete the transfer of the account to the receiving party. The

Questions about the rule may be directed to Diane G. Klinke, Deputy General Counsel.

¹NYSE rule 412 and NASD section 65 of the Uniform Practice Code.

²The National Securities Clearing Corporation (NSCC) offers an automated customer account transfer system. Currently, however, the system only may be used by full clearing members of NSCC.

*Underlining indicates new language.

receiving party and the carrying party must immediately establish fail-to-receive and fail-to-deliver contracts as of the date of validation upon their respective books of account against the long/short positions in the customer's accounts that have not been physically delivered/received and the receiving party/carrying party must debit/credit the related money amount. The customer's account(s) shall thereupon be deemed transferred.

(b) Any fail contracts resulting from this account transfer procedure must be closed out in accordance with rule G-12(h).

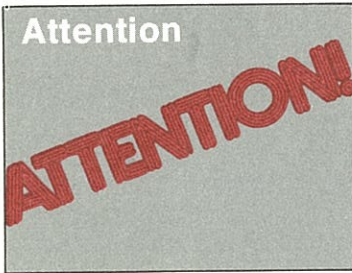
(c) Any discrepancies relating to positions or money balances that exist or occur after transfer of a customer's securities account must be resolved promptly.

(d) The Board may exempt from the provisions of this rule,

either unconditionally or on specified terms and conditions, any dealer or any type of account, security or municipal security.

(e) When both the carrying party and the receiving party are direct participants in a clearing agency registered with the Securities and Exchange Commission offering automated customer securities account transfer capabilities, the account transfer procedure, including the establishing and closing out of fail contracts, must be accomplished pursuant to the rules of and through such registered clearing agency.

(f) The carrying party shall forward a copy of each customer account transfer instruction issued pursuant to paragraph (a)(i) to the enforcement authority having jurisdiction over the carrying party member, at the request of such authority.



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Persons to Contact at Registered Clearing Agencies and Depositories

The Board occasionally receives inquiries from dealers concerning the policies and procedures relating to municipal securities of clearing agencies and depositories registered with the Securities and Exchange Commission. Often these inquiries should be directed to the particular clearing agency or depository rather than to the Board, but the dealer may be unaware of the appropriate person at the clearing agency or depository to contact. The clearing agencies and depositories offering municipal securities services have furnished the following names and telephone numbers of individuals who will assist persons who have questions about their respective municipal securities services.

Depository Trust Company

- Brokers & non-bank dealers:
 - David Schaffer (212) 709-1103
- Dealer banks:
 - George Monk (212) 709-1660
 - Everett Smith (212) 709-1614
- Other institutions:
 - George Monk (212) 709-1660

Midwest Clearing Corporation/Midwest Securities Trust Company

- James F. Purcel, Jr. (212) 785-1407
- John I. Mayer IV (212) 785-1407

National Securities Clearing Corporation

- Bernard Sweeny (212) 510-0483

Pacific Clearing Corporation/Pacific Securities

Depository Trust Company

- Mitchell P. Prather (415) 393-4265

Philadelphia Depository Trust Company

- Robert Z. Kreszwick (215) 496-5109

Stock Clearing Corporation of Philadelphia

- Joseph Zibelman (215) 496-5095



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Publications List

Manuals and Rule Texts

MSRB Manual

Soft-cover manual, updated semi-annually, of MSRB rules; text of the Securities and Exchange Act of 1934 and of the Securities Investor Act of 1979; samples of forms; lists of Board members and staff; new developments.
November 1, 1985\$6.00

MSRB Rules

Soft-cover text of MSRB rules and interpretations; reprint of the MSRB rules and the forms sections of *MSRB Manual*.
November 1, 1985\$2.50

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).
117 pages\$1.50

Professional Qualification Handbook

Analysis of requirements for qualification as a municipal securities representative, principal, sales principal, and financial operations principal; rule text and glossary (April 1984).
49 pages5 copies per year No charge
Each additional copy\$1.50

Manual on Close-Out Procedures

Discussion of the close-out procedures of rule G-12(h)(i) in question-and-answer format, glossary, and rule text (January 1985).
96 pages\$3.00

Arbitration Information and Rules

Explanation of arbitration and the procedures for filing arbitration claims with special attention to small claims, text of rules A-16 and G-35, and glossary (1984).
33 pages No charge

Instructions for Beginning an Arbitration

Step-by-step instructions and forms needed for filing an arbitration claim (1984).
9 pages No charge

Reporter and Newsletter

MSRB Reports

MSRB reporter and newsletter to the municipal securities industry on proposed rule changes, rule changes, notices requesting comment from the industry and public, notices of interpretation, and news items No charge

Examination Study Outlines

Study Outline: Municipal Securities Representative Qualifications Examination

Outline for Test Series 52 (January 1985).
30 pages No charge

Study Outline: Municipal Securities Principal Qualifications Examination

Outline for Test Series 53 (September 1985).
9 pages No charge

Study Outline: Municipal Securities Financial and Operations Principal

Outline for Test Series 54 (1978).
4 pages No charge
A series of guides outlining subject matter areas a candidate seeking professional qualification is expected to know; each guide includes a list of reference materials and sample questions.

Reports

Report of the Conference on Registered Municipal Securities

Report resulting from the forum organized by the Board's Task Force on Registered Municipal Securities to define problems with the registration requirement and to explore solutions (1982).
48 pages No charge

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

Special edition of *MSRB Reports* publishing the SEC-requested report on the progress achieved in the development of automated clearance and settlement systems (1983).
45 pages No charge

Pamphlets

MSRB Information

Pamphlet describing Board authority, structure, responsibility, rulemaking process, and communication with the industry.
1-500 copies No charge
Over 500\$.05 per copy

MSRB Information for Investors

Pamphlet describing Board rulemaking authority, the rules protecting the investor, and communication with the industry and investors.
1-500 copies No charge
Over 500\$.05 per copy

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Description	Price	Quantity	Amount Due
MSRB Manual	\$6.00		
MSRB Rules	\$2.50		
Glossary of Municipal Securities Terms	\$1.50		
Professional Qualification Handbook	5 copies per year (no charge) Each additional copy \$1.50		
Manual on Close-Out Procedures	\$3.00		
Arbitration Information and Rules	(no charge)		
Instructions for Beginning an Arbitration	(no charge)		
MSRB Reports	(no charge)		
Study Outline: Municipal Securities Representative Qualifications Examination	(no charge)		
Study Outline: Municipal Securities Principal Qualifications Examination	(no charge)		
Study Outline: Municipal Securities Financial and Operations Principal	(no charge)		
Report of the Conference on Registered Municipal Securities	(no charge)		
Prospects for Automation of Municipal Clearance and Settlement Procedures: Report to the Securities and Exchange Commission	(no charge)		
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MSRB Information for Investors	Over 500 copies \$.05 per copy		
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