MSRB REPORTS

Volume 7, Number 1 | Municipal Securities Rulemaking Board | January 1987

In This Issue

Board Nomination Recommendations Requested

The process has begun for selecting five new Board members to serve three-year terms beginning October 1, 1987. One bank dealer, two securities firm and two public representatives must be elected. Industry members and the general public are invited to participate. The instructions and form for making a recommendation and the names of those currently serving on the Board are published in this issue.

Also in This Issue

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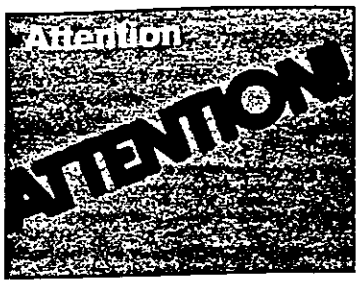

Route To:

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

EXAMINATIONS

Effect of the Tax Reform Act on the Representative Examination

Effective January 1, 1987, questions comprising the Board's Municipal Securities Representative Qualification Examination (Test Series 52) were revised to reflect the recently enacted Tax Reform Act of 1986. These questions include those on topics obviously affected by the Tax Reform Act, such as tax treatment of municipal securities or capital gains taxation. In addition, certain other questions in the examination have been changed when necessary to clarify the subject matter being tested. For example, when the tax status of a municipal security is a factor in understanding a question, the question clearly states whether such a security is taxable or tax-exempt.

The revised questions are being used in all administrations of the examination on and after January 1, 1987. Thereafter, new questions on relevant areas of the Tax Reform Act will be added to the examination from time to time.

January 2, 1987

Questions about this notice may be directed to Peter H. Murray, Assistant Executive Director.

Calendar

October 17—Effective date of G-26 on customer account transfers

March 15 —Comments due on G-10 amendment on delivery of investor brochure

—Comments due on G-12 and G-15 on confirmation disclosure of securities designated as eligible for bank deductibility

March 20 —Recommendations due for Board nominations

Pending —G-12 and G-15 on confirmation disclosure of securities subject to alternative minimum tax

—G-8 on suitability recordkeeping

—G-12 on interest payment claim procedure for book-entry deliveries

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Recommendations Requested for Board Nominations

The 1987 Nominating Committee requests recommendations of persons to be considered for the five Board positions opening on October 1, 1987.

Membership Requirements

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

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

The Board, established by Congress in 1975 to act as the primary rulemaking body for the municipal securities industry, consists of 15 members—five representatives of bank dealers, five representatives of securities firms and five public members. One public member must be a representative of issuers and one of investors. Public members may not be associated with a securities firm or bank dealer other than by reason of being under common control with, or directly controlling, any broker or dealer which is not a municipal securities broker or municipal securities dealer.

Procedure for Recommending Candidates

1. Complete the form printed on page 5 or a photocopy of that form. (Additional forms may be obtained from the Board's offices.) The following information must be included on the form:
   - The name, business affiliation, business address and telephone number, home address and telephone number and category (bank representative, securities firm representative or public representative) of the individual recommended. (Item 1.)
   - The educational and professional background of the individual recommended. (Item 2.)
   - The proposer's name, business address, telephone number and professional relationship (if any) to the individual recommended. (Item 3.)
   - The affiliation (if any) of the individual with any broker, dealer or municipal securities dealer. (Item 4.)
2. Determine in advance that the individual recommended is willing to serve on the Board.
3. Submit recommendations no later than **March 20, 1987** to:

Samuel A. Ramirez
Chairman, Nominating Committee
Municipal Securities Rulemaking Board
Suite 800
1818 N Street, N.W.
Washington, DC 20036-2491

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Terms of Present Board Members

Terms Expire September 30, 1987

H. Keith Brunnemer, Jr., President
First Charlotte Corp.
Charlotte, North Carolina
Leonard M. Leiman, Partner
Reavis & McGrath
New York, New York
Walter P. Stern, Vice Chairman
Capital Research Co.
New York, New York
Samuel A. Ramirez, President
Samuel A. Ramirez & Co., Inc.
New York, New York
Byron G. Thompson, Chairman of the Board
Country Club Bank
Kansas City, Missouri

Terms Expire September 30, 1988

W.J. Turner L. Cobden, Senior Vice President
Smith Barney, Harris Upham & Co., Inc.
New York, New York
Terrence E. Comerford, Managing Director
PaineWebber Inc.
San Francisco, California
James B.G. Hearty, Director
Bank of Boston
Boston, Massachusetts
G. Timothy Lane, Executive Vice President
Barnett Bank of Florida, Inc.
Jacksonville, Florida
Thomas H. Locker, Comptroller
Orange County
Orlando, Florida

Terms Expire September 30, 1989

Michael E. Dougherty, President
Dougherty, Dawkins, Strand & Yost, Inc.
Minneapolis, Minnesota
Leslie Nelman, Director of Fixed Income Investments, Property/Casualty
Farmers Insurance Group
Los Angeles, California
Richard P. Patterson, Senior Vice President
InterFirst Bank Dallas, N.A.
Dallas, Texas
Carroll M. Perkins, Associate General Manager Customer, Financial and Information Services
Salt River Project
Phoenix, Arizona
John W. Rowe, Executive Vice President
Centerre Bank, N.A.
St. Louis, Missouri

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Recommendation Form

1. Individual Recommended: _____

Business Address: _____

_____

_____

Telephone Number: _____

Home Address: _____

_____

_____

Telephone Number: _____

Category: Bank representative ..... ☐
Securities firm representative ..... ☐
Public member ..... ☐

2. Educational and Professional Bankground

Professional: _____

_____

_____

Education: _____

_____

_____

Associations: _____

_____

_____

3. Proposer: _____

_____

_____

_____

4. Associated Person under Securities Exchange Act of 1934: _____

_____

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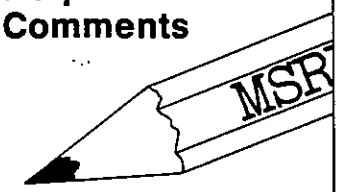
Request For Comments



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Delivery of Investor Brochure: Rule G-10

Comments Requested

Dealers would be required to deliver the Board's investor brochure to new and existing customers.

Introduction

In February 1982, the Board printed a brochure entitled "Information for Investors" which contained information about the Board and summarized Board rules designed to protect investors in municipal securities. The brochure also included a section describing the Board's arbitration program. The Board expected the brochure to be used to acquaint municipal securities investors with the Board's mandate.[1] At that time, the Board considered requiring dealers to deliver the brochure to customers, but instead determined to provide the brochure to municipal securities dealers for mailing to their customers on a voluntary basis and to monitor dealer requests for the brochure. A sample copy of the brochure was enclosed in the February 1982 issue of *MSRB Reports*, along with a notice indicating the content and availability of the brochure. To encourage use of the brochure, the Board provides dealers with 500 brochures free of charge.[2] The Board has reviewed requests for the brochure and has found that, in the five years since the brochure was published, only approximately 2,000 brochures have been distributed, mainly by the Board and its staff.

The Board is concerned that many municipal securities customers may not be aware of the protections provided by its rules and of the availability of its arbitration program to resolve disputes arising from municipal securities transactions. The Board, therefore, has updated the brochure and is considering adopting a rule that would require dealers to deliver to new and existing municipal securities customers the informational brochure discussing the Board, its rules, and its arbitration program.[3]

Summary of Draft Rule

The draft rule would require a dealer to deliver the investor brochure to a new customer within 90 days of opening an account in which municipal securities transactions may be effected.[4] The 90-day time period would afford a dealer the flexibility to include the brochure in its regular mailings of information, such as confirmations, account mailings or advertisements.

The draft rule also would require a dealer, on a one time basis, to deliver the brochure to its municipal securities customers, which is defined in the rule to include any customer which has an account with the municipal securities dealer in which a municipal securities transaction has been effected or which contains a municipal security. This would include a customer which has purchased a municipal security from the dealer or has sold such a security to the dealer. It also would include a customer which may have purchased municipal securities from another dealer but currently holds the securities in its account with the dealer.[5] A dealer would have to complete its one time mailing within six months from the effective date of the rule.

Discussion

The Board believes that the delivery of the brochure to customers is necessary to alert them to the existence of Board rules and its arbitration program. The Board has republished the brochure in a smaller, lighter form which could be included in other mailings. It is considering distributing the brochure free of charge to the dealer community.

In considering how dealers could comply with the draft requirement, the Board notes that rule G-8(a)(ii) requires dealers to record all purchases and sales and receipts and deliveries of municipal securities on individual customer account records.[6] Such information must be retained, under rule G-9, for six years. Thus, a dealer has records from which

Comments on the matters discussed in this notice should be submitted not later than March 15, 1987 and may be directed to Diane G. Klinke, Deputy General Counsel. Written comments will be available for public inspection.

[1]This is in addition to rule G-29 which requires dealers to keep a copy of the Board's rules in each office in which municipal securities activities are conducted and to make such rules available for examination by customers upon request.
[2]Dealers requesting additional copies are charged the Board's cost of $.05 per copy.
[3]The text of the investor brochure follows this notice.
[4]The rule is not intended to apply to customers opening accounts limited to trading in futures or options, for example.
[5]The Board recognizes that most bank dealers do not hold municipal securities in customer accounts; rather, these securities are held in the bank's safekeeping or custody department. A bank dealer would not be required to deliver the brochure to customers of its bank's safekeeping department.
[6]There is a similar requirement for recording of all securities transactions and receipts and deliveries of securities in customer accounts in SEC rule 17a-3, which many municipal securities firms comply with in place of rule G-8. See rule G-8(f).

it should be able to isolate those customers which have effected a municipal securities transaction or which have deposited municipal securities in their accounts. If a dealer prefers to deliver the brochure to all of its current customers instead of reviewing its customer records to determine which customers are included in the draft rule's definition of a municipal securities customer, it may do so.

Request for Comment

The Board requests comment on the draft rule from interested persons. The Board seeks comments on the extent to which customers who purchase municipal securities are advised by dealers about the Board's rules protecting their interests and the Board's arbitration program. In addition, the Board seeks comment on what accounts are considered current or open and the extent to which dealers are able to determine which open customer accounts have effected a municipal securities transaction. In particular, the Board requests information on the ability of dealers to identify customer accounts which may not have effected a municipal securities transaction for a number of years. Comments also are requested whether the definition of a municipal securities customer should include only customers who have effected transactions in their accounts during the last six years or some shorter period of time and, if any such time limitation is imposed, how the Board can be assured that all municipal securities customers have received a copy of the brochure. The Board requests comment whether a dealer is more likely to provide the brochure to all of its current customers or to determine which customers fall within the draft rule's definition of a municipal securities customer.

The Board asks for comments from institutional investors regarding any benefits they may derive from receipt of the investor brochure. Finally, the Board seeks information whether dealers make regular mailings to current customers that could be utilized for sending the brochure as required by the draft rule.

January 9, 1987

Text of Draft Rule*

Rule G-10. Delivery of Investor Brochure

(a) Each broker, dealer and municipal securities dealer shall deliver a copy of the investor brochure to a customer within 90 days of the opening of an account in which municipal securities transactions may be effected.

(b) Each broker, dealer and municipal securities dealer shall deliver, within six months of the effective date of this rule, a copy of the investor brochure to its municipal securities customers.

(c) For purposes of this rule, the following terms have the following meanings:

(i) the term "investor brochure" shall mean the publication or publications so designated by the Board, and

(ii) the term "municipal securities customer" shall include any customer which has an account with a municipal securities dealer in which a municipal securities transaction has been effected or which contains a municipal security.

*Underlining indicates new language.

Text of Brochure

INFORMATION FOR MUNICIPAL SECURITIES INVESTORS

The Municipal Securities Rulemaking Board was created by Congress in 1975 to make rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers ("dealers"). The Board is composed of 15 members who are divided into three equal categories—persons representing bank dealers, securities firms, and the public.

The MSRB is subject to oversight by the Securities and Exchange Commission, and its rules must be approved by the Commission. It is financed by fees and assessments paid by securities firms and banks engaged in municipal securities activities.

Rules Protecting the Investor

The main purpose of the Board's rules is to protect investors who buy or sell municipal securities. Toward that end, the Board has adopted rules that require dealers to deal fairly with investors. The Board also sponsors an arbitration program that investors may use to resolve disputes involving the municipal securities activities of a dealer.

When a dealer recommends a municipal security to an investor, the Board's rules specifically require that the recommendation be suitable to the investor's financial situation and investment objectives. Advertisements about municipal securities must not be false or misleading.

In addition, before selling a municipal security to an investor, the dealer must share with the investor all material information about the security necessary for the investor to make an informed investment decision. Investors should consider all relevant features of a municipal security, including its yield, tax status and call or put features. The dealer must buy and sell municipal securities at a fair and reasonable price, based on its best judgment of the security's fair market value. No dealer may guarantee an investor against a loss on an investment in a municipal security.

After buying or selling a municipal security, a dealer must send a written confirmation to the investor containing the identities of the parties to the transaction, a description of the security, the date of the sale, the date the security is to be delivered to the purchaser, the security's price and yield, the capacity in which the dealer is acting, the existence of any call or put features and the availability of specific information about those features. The dealer also must provide the purchaser of a new issue municipal security with a copy of the official statement if one is prepared by the issuer.

The Board's rules apply to municipal securities only. They do not apply to unit investment trusts, bond funds or other, similar investment programs. A municipal security generally is defined as a direct obligation issued by a state, county, city or any of their political subdivisions, such as a school district or a housing authority.

Investor Disputes with Dealers

An investor who has a dispute with a dealer should try to resolve it with the sales representative or the representative's

supervisor. If the dispute cannot be resolved, the investor may file a claim with the MSRB's arbitration program for possible restitution of an unfair monetary loss. The investor also may file a complaint with the regulatory agency that examines the dealer for compliance with Board rules.

Arbitration

The MSRB sponsors an arbitration program for the quick and fair resolution of disputes involving municipal securities transactions with dealers. Although an investor may be represented by an attorney, it is not required. Investor claims are submitted for a hearing before a panel of impartial arbitrators, the majority of whom are not associated with a dealer. Once a claim is submitted to arbitration, the right to have it heard in court generally is forfeited, and the arbitrators' decision is final and rarely subject to review.

Complaints

An investor who believes a dealer has been unfair or that Board rules or federal securities laws have been violated may file a complaint with the

Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Complaints also may be filed with the appropriate agency listed below:

For securities firms—

National Association of Securities Dealers, Inc.
1735 K Street, NW
Washington, DC 20006
Attn: Office of Policy Research

For state banks that are not members of the Federal Reserve Board—

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn: Securities Analyses Unit
Division of Bank Supervision

For state banks that are members of the Federal Reserve Board—

Federal Reserve Board
20th and C Streets, NW
Washington, DC 20551
Attn: Securities Regulation Department
Division of Banking Supervision and Regulation

For national banks—

Office of the Comptroller of the Currency
490 L'Enfant Plaza, SW
Washington, DC 20219
Attn: Director, Investment
Securities Division

These agencies examine dealers for compliance with Board rules and federal securities laws.

Anyone who wishes to communicate with the MSRB, obtain a copy of its rules or receive more information about its arbitration program may contact the

Municipal Securities Rulemaking Board
1818 N Street, NW Suite 800
Washington, DC 20036-2491
Telephone: (202) 223-9347

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SEC Release on Voluntary Minimum Standards for Processing Calls of Securities

The recent dramatic increase in early redemptions of municipal securities has underscored the inadequacy of the content and publication of many notices of calls. On November 14, 1986, the SEC held a meeting of interested industry representatives and regulatory organizations to consider methods of improving call notifications. The attendees agreed that certain guidelines should be followed voluntarily by issuers and their agents and trustees. On December 3, 1986, the Commission published the following Release which sets forth certain minimum voluntary standards for processing redemptions of municipal securities.

The Board strongly urges industry participants to follow the minimum standards for existing issues of municipal securities as closely as possible. The Board also urges underwriters and financial advisors to ensure that the minimum standards are formally adopted by issuers and their agents or trustees at the inception of new issues of municipal securities.

SECURITIES AND EXCHANGE COMMISSION
Release No. 34-23856
Municipal Bond Redemptions
AGENCY: Securities and Exchange Commission.
ACTION: Publication of a Letter Identifying Voluntary Minimum Standards for Processing Redemptions of Debt Securities.
SUMMARY: On November 14, 1986, representatives of industry organizations, self-regulatory organizations, and Federal regulatory agencies met to discuss problems associated with municipal bond call processing and reached a consensus that issuers and their agents, in processing municipal securities redemptions, should adhere to certain minimum standards as set forth in the text of the letter below. The Securities and Exchange Commission endorses those standards and encourages all municipal securities issuers and their agents to adhere to the standards in processing existing and future redemptions. FOR FURTHER INFORMATION CONTACT: Jerry Greiner at 202/272-2066 or Ester Saverson, Jr. at 202/272-2826, Division of Market Regulation, Securities and Exchange Commission, Washington, D.C. 20549.
SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission ("Commission") authorized the Division of Market Regulation to send the following letter discussing certain problems in processing redemptions of municipal bonds.[1] The letter identifies six steps issuers and their agents can take to reduce these problems.

I. *Introduction*

The Commission understands that recent interest rate declines have caused a significant increase in the incidence of full and partial redemptions of debt securities, particularly municipal securities. The Commission also understands that recent high redemption volume and the procedures used to initiate and complete redemptions have caused operational problems to financial intermediaries, delayed redemption processing, and resulted in financial loss to affected bondholders and intermediaries. The Commission believes the voluntary guidelines set forth below help ameliorate redemption processing problems and minimize adverse effects on bondholders. The Commission also intends to continue to monitor and evaluate bond redemptions.

II. *Discussion*

The Commission realizes that the endorsed standards primarily will affect issuers, their agents, and bond indenture trustees. The Commission encourages voluntary compliance, which should promote

[1]The letter was sent to the organizations listed in footnote 1 of the letter below.

more efficient redemption processing for all persons involved, including issuers, agents, intermediaries, and bondholders. The Commission realizes that the six endorsed standards are minimum guidelines and encourages issuers and their agents to consider taking additional steps to promote maximum efficiency and safety in the bond redemption process.

In today's environment of securities immobilization and automated book-entry processing of securities transactions, a significant percentage, often a majority, of the ownership interests in a securities issue is held at central registered securities depositories through financial intermediaries. Because financial intermediaries and their beneficial owner customers must depend on the securities depositories, as registered owner or custodian, to receive notice of and process redemptions, the Commission urges cooperation and increased automation for depository-processed redemptions. Issuers, their agents, and trustees should review current procedures and consider certain additional steps to ensure timely completion of redemption processing by depositories and other custodians, including automated tape transmission of redemption information to depositories, increased communication with depositories, and follow-up notices to depositories.

At the same time, however, the Commission also recognizes that many bondholders' certificates are not held by depositories, but are held individually or through other custodians. These bondholders, in the Commission's view, are often the least informed about the redemption process and bear significant financial loss due to missed redemptions and late redemption payments. The Commission, therefore, encourages voluntary efforts to improve the process by which these bondholders are informed of redemptions and are paid redemption proceeds. Issuers, their agents, and trustees should consider secured mailings to all registered bondholders, follow-up notices to bondholders who have failed to deliver called bonds, mailed notices to holders of bearer bonds who provide their names and addresses for that purpose, and redemption notice publication in sources most likely to reach bondholders.

By the Commission.

Jonathan G. Katz
Secretary

Dated: December 3, 1986

Re: Processing Municipal Bond Calls

As you know, the recent decline in interest rates has resulted in a tremendous increase in redemptions of municipal securities. On November 14, 1986, representatives of several industry organizations met to discuss problems associated with municipal bond call processing, and reached unanimous agreement that issuers, trustees and their agents, in processing municipal securities redemptions, should be encouraged to adhere to the six minimum standards set forth below.[1] These representatives agreed to distribute notice of these standards to their membership and to take appropriate steps to endorse the standards. Accordingly, please be advised that the Securities and Exchange Commission ("Commission") endorses these standards and encourages all municipal securities issuers and their agents to adhere to these standards in processing existing and future redemptions.

I. *Summary of the Standards*

Representatives unanimously agreed with the following standards:

—Notice of municipal bond redemptions should contain, at a minimum: CUSIP number; certificate numbers and called amounts of each certificate (for partial calls); publication date; redemption date; redemption price; redemption agent name and address; date of issue; interest rate; maturity date; and other descriptive information that accurately identifies the called security.

—All redemption notices should be sent, in a secure fashion (*e.g.*, registered or certified mail or overnight delivery service), at least to all four registered securities depositories and to national information services that disseminate redemption notices.

—Redemption notices should provide for 30 days from publication date to redemption date.

[1]Industry organizations represented at the meeting were: American Bankers Association; Dealer Bank Association; Government Finance Officers Association; National Association of Bond Lawyers; National Association of State Auditors, Comptrollers and Treasurers; Public Securities Association; Securities Industry Association; and the four registered securities depositories—Depository Trust Company; Midwest Securities Trust Company; Pacific Securities Depository Trust Company and Philadelphia Depository Trust Company. Staff members from the Securities and Exchange Commission; Municipal Securities Rulemaking Board; Office of the Comptroller of the Currency; Board of Governors of the Federal Reserve System; and Federal Deposit Insurance Corporation also attended the meeting.
The Investment Company Institute was not represented at the meeting but has agreed to distribute this letter to its members. The Securities Transfer Association, Inc., also not represented at the meeting, is considering whether to send this letter to its members.

—Redemption notices should be sent to the registered securities depositories in advance of publication date.
—Second notices of advance refundings of municipal securities should be given 30 days prior to the redemption date.
—CUSIP number identification should accompany all redemption payments.

II. *Need for the Standards*

Custodians of called municipal bonds and National Clearance and Settlement System ("National System") processors stressed their need for early and complete notices of redemption to afford sufficient redemption processing time and to allow timely presentment of called securities to redemption agents. They also urged resolution of certain redemption payment problems.

A. *Contents of Redemption Notices*

Representatives stressed the need for inclusion of CUSIP numbers on all redemption notices. The CUSIP number is the unique identification number assigned to each maturity of an issue, which is usually printed on the face of each individual certificate of the issue. Because CUSIP numbers provide an efficient way to identify different issues and maturities, these numbers are used extensively in automated recordkeeping systems throughout the securities and banking industry. For example, ownership interests in municipal securities held by securities depositories are maintained exclusively by reference to CUSIP number. Thus, representatives agreed that redemption notices must contain, at a minimum: CUSIP number; certificate numbers and called amount for each certificate (for partial calls); publication date; redemption date; redemption price; redemption agent name and address; date of issue; interest rate; maturity date; and other identifying information.

B. *Redemption Notices Should be Sent to Depositories and to One or More National Information Services*

Securityholders, depositories[2] and other custodians often have difficulty learning of redemptions, particularly when redemption notices for bearer bonds are published only in local newspapers that are not covered by national call dissemination services. Representatives stressed that it is crucial for issuers and trustees to send redemption notices to the four registered securities depositories, regardless of other publication or notice requirements specified in the indenture.[3] Moreover, notices to depositories should be sent in a fashion more secure than first class mail, such as, registered or

[2]The four registered securities depositories are user-governed, not-for-profit corporations that provide safekeeping and other securities processing services. The securities depositories do not trade securities for their own accounts and are self-regulatory organizations registered with the Commission under the Securities Exchange Act of 1934. As members of the Federal Reserve System, they are also subject to examination by the Board of Governors of the Federal Reserve System. Approximately 47% of all municipal securities are held by securities depositories for their member banks and broker-dealers. Thus, notice to securities depositories will facilitate prompt notice to a significant proportion of bondholders.

[3]Redemption notices should be sent to:

(i) Corporate calls
The Depository Trust Company
23rd Floor
7 Hanover Square
New York, New York 10004
Fax- (212) 709-6895 or 6896

Municipal calls
The Depository Trust Company
711 Stewart Avenue
Garden City, New York 11530
Attention: Diana Difiglia
Fax- (516) 227-4039 or 4190

(ii) Midwest Securities Trust Company
Capital Structures-Call Notification
440 South LaSalle Street
Chicago, Illinois 60605
Fax- (312) 663-2343

(iii) Registered bond calls:
Pacific Securities Depository Trust Company
Pacific and Company
P.O. Box 7041
San Francisco, California 94120
Fax- (415) 393-4128

Bearer bond calls:
Pacific Securities Depository Trust Company
Pacific and Company
P.O. Box 7042
San Francisco, California 94120
Fax- (415) 393-4128

(iv) Philadelphia Depository Trust Company
Reorganization Division
1900 Market Street
Philadelphia, Pennsylvania 19103
Attention: Bond Department
Dex- (215) 496-5058

certified mail and overnight mail.[4] Representatives also agreed that, to ensure nationwide access to redemption notices,[5] trustees and issuers also should send redemption notices to one or more information services of national recognition that disseminate redemption information.[6]

C. *The Standard Redemption Notice Period is 30 Days*

Representatives agreed that 30 days from publication date to redemption date should be the standard notice period for municipal bond redemptions. Bond counsel and trustees at the meeting suggested that most trust indentures, even those specifying minimum notice of as little as ten days, provide the flexibility for 30 days notice. Representatives explained that 30 days notice of redemptions on municipal bonds is the minimum time frame within which they can prepare adequately for and complete municipal bond redemptions. Thirty days notice is critical because investors frequently own securities through several intermediaries including securities depositories and banks or broker-dealers, and each intermediary must allocate called certificates based on positions as of the close of business the day before the notice publication date.

Depository representatives emphasized the need for early notice of redemptions, especially with respect to partial calls of municipal bonds. Upon learning of a call, depositories must reconcile which among themselves is the net holder of the affected issue. The net holder must then run a lottery to allocate the call among participants having a position in the affected issue. The lottery must be based on participants' positions as of record date, which is the close of business on the day before publication date. After the net holding depository's lottery has run, the other depositories can run their lotteries, also based on participants' positions as of record date. After the depositories' lotteries have been run, depository participants can run their own internal lotteries as necessary. This need for multiple, successive lotteries for partial calls means that sufficient processing time must be allowed.

D. *Redemption Notices Should be Sent to Depositories Two Business Days In Advance of Publication Date*

As noted above, depositories run their lotteries based on participants' positions as of record date, the day before publication date. Thus, anytime a depository receives a redemption notice after its record date, the depository must reconstruct record date positions. This entails locating and reconstructing historical files, a time-consuming process that creates further delays. Moreover, the further from record date a lottery is run, the greater the chance that depository participants will have sold or transferred their record date holdings in the called issue. If a participant's position is inadequate to meet its call allotment, a short position is created and the participant must cover its delivery obligation with a cash deposit and often will need to buy securities in the open market. If the issue is thinly traded, significant financial losses can result. To avoid these problems, representatives agreed that issuers and trustees should send redemption notices to the depositories in advance of publication date whenever possible. All of the depositories have represented to the Commission that they would maintain confidentiality of the notices until publication date and would use their advance knowledge only to prepare timely lottery runs.

E. *Second Notice of Advance Refunding of Bonds*

Several representatives raised the concern that issuers will announce the refunding of a bond issue one to five years in advance of the redemption date without any other notice of the advance refunding. During the intervening years between the publication date and the redemption date, holders must keep track of bonds subject to the advance refunding and the date and price of the redemption. The representatives all concurred that a second notice, published and mailed 30 days prior to redemption date to all registered bondholders, including the four registered securities depositories, and to one or more of the national information services that disseminate redemption notices, would alleviate the processing problems that result from missed redemption dates.

F. *CUSIP Number Identification of Redemption Payments*

Depositories stressed the need for CUSIP number identification on redemption checks or wire payments to avoid delays caused by researching payments to participants. Depository participants face financial risks when they pay their customers on redemption date without having received redemption proceeds from the depository or the redemption agent. Representatives therefore agreed

[4]All depositories have offered to pay the expense of overnight delivery of redemption notices. Telecopying notices to the depositories also is an acceptable method of delivery. (See note 3 for telephone numbers.)

[5]Although depositories are probably the largest recordholders of registered municipal securities and principal custodians of bearer municipal securities, some municipal issues, particularly those in bearer-form, are not eligible for depository services. Accordingly, special notice to information services appears to be particularly appropriate as a means of alerting securityholders to impending redemptions in a timely fashion.

[6]For example, some of these nationally-recognized services are: Financial Information, Inc.'s Financial Daily Called Bond Service; Interactive Data Corporation's Bond Service; Kenny Information Service's Called Bond Service; Moody's Municipal and Government; and Standard and Poor's Called Bond Record.

that CUSIP number identification should accompany redemption checks or wire payments to depositories.

* * *

The Securities and Exchange Commission today has issued a release encouraging all municipal securities issuers and their agents and National System processors to adopt these standards immediately. If you have questions or further suggestions about these standards, please contact Brandon Becker at 202/272-2866 or Jonathan Kallman at 202/272-2402.

Sincerely,

Richard G. Ketchum
Director

MSRB REPORTS

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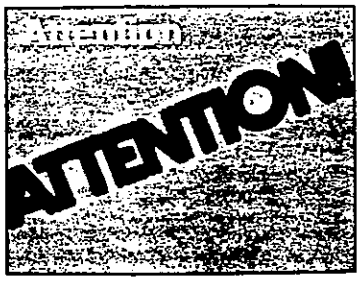
January 1987



Route To:

- ☒ Manager, Muni. Dept.
- ☐ Underwriting
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- ☒ Compliance
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Notice on Structuring New Issues

The Board has received a number of inquiries as to its authority over the structure or other details of issues of municipal securities, specifically issues for which part of the proceeds are invested by the issuer in investment contracts and issues that are called after being escrowed to maturity. The MSRB's rules apply to brokers, dealers and municipal securities dealers only. The MSRB does not have authority with regard to the structure or other arrangements of new issues of municipal securities, nor does it specify what information should be disclosed by issuers in official statements. Questions whether an issue conforms to applicable state or local laws and regulations should be directed to the issuer or to the appropriate governmental agency. Questions or complaints concerning the adequacy of disclosure by a municipal issuer under the antifraud provisions of the federal securities laws should be directed to the Securities and Exchange Commission.

December 23, 1986

Questions about this notice may be directed to Angela Desmond, General Counsel.

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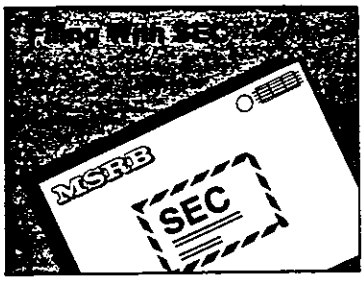

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Confirmation Disclosure of Securities Subject to Alternative Minimum Tax: Rules G-12, G-15 and G-17

Amendments Filed and Interpretation

The amendments would require confirmation disclosure of securities subject to alternative minimum tax.

On January 6, 1987, the Board filed amendments to rules G-12(c) and G-15(a), on confirmations, that would require identification on customer and inter-dealer confirmations of issues subject to alternative minimum tax. The amendments become effective upon approval by the Commission. This notice also reviews the application of rule G-17, on fair dealing, to disclosures by dealers and underwriters concerning alternative minimum tax securities.

Background

The Tax Reform Act of 1986, among other things, provides for an alternative minimum tax on the interest received on "private activity bonds"[1] (other than Section 501(c)(3) obligations) issued after August 7, 1986.

Application of Rule G-17

The Board believes that the fact that "tax-exempt" interest paid on a municipal security may be subject to the alternative minimum tax is material information because it may affect the tax treatment of income derived from the security and may affect the security's price. As the Board previously has stated, "The tax exemption of income received is a primary investment consideration for purchasers of municipal securities."[2] Therefore, this fact should be disclosed to a customer, under rule G-17 on fair dealing, prior to or at the time of trade. Moreover, in instances in which an issuer fails to identify securities that are subject to alternative minimum tax, rule G-17 requires the underwriter to do so.

Amendments to Rules G-12(c) and G-15(a)

The amendments require that confirmations of transactions in securities for which the interest is identified by the issuer or underwriter as subject to the alternative minimum tax, contain a designation to that effect.

The Board understands that the draft amendments are consistent with confirmation disclosures already being followed by much of the industry. Comments by interested persons on the amendments should be filed directly with the Securities and Exchange Commission,[3] 450 Fifth Street, N.W., Washington, D.C. 20549.

January 6, 1987

Text of Proposed Amendments*

Rule G-12. Uniform Practice

(a) and (b) No change.

(c) (i) through (v) No change.

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

(A) through (C) No change.

(D) if the interest on the securities is identified by the issuer or the underwriter as subject to the alternative minimum tax, a designation to that effect;

(D) through (H) relettered (E) through (I)

(d) through (I) No change.

* * * * *

Rule G-15(a). Customer Confirmations

(i) and (ii) No change.

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

(A) through (C) No change.

(D) if the interest on the securities is identified by the issuer or underwriter as subject to the alternative minimum tax, a designation to that effect;

(D) through (I) relettered (E) through (J)

(b) through (e) No change.

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

[1]Private activity bonds are defined in the Act as any bond issue, more than 10 percent of the proceeds of which are to be used (directly or indirectly) in any trade or business carried on by a person other than a governmental unit, and more than 10 percent of the payment of principal or interest of which is to be derived with respect to the trade or business use, or is secured by payments or property used in a trade or business.

[2]Exposure draft on zero coupon, compound interest and multiplier securities. *MSRB Reports*, vol. 2, no. 7 (October/November 1982) at 14; *MSRB Manual* (CCH) ¶10,225 at 10,704.

[3]Comments should refer to SEC File No. SR-MSRB-87-1.

*Underlining indicates new language.

MSRB REPORTS

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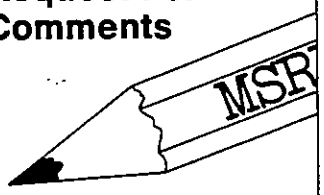
Request For Comments



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Confirmation Disclosure of Securities Eligible for Bank Deductibility: Rules G-12 and G-15

Comments Requested

The amendments would require confirmation disclosure of securities eligible for bank deductibility.

Rules G-12(c) and G-15(a) prescribe certain items of information that must be contained on confirmations of transactions in municipal securities. The Board is considering adopting amendments to these rules to require disclosure on customer and inter-dealer confirmations of issues designated as eligible for bank deductibility.

Background

The Tax Reform Act of 1986 eliminates bank deductibility for interest on funds used to carry or purchase bonds acquired after August 7, 1986, except for obligations of certain governmental units. To qualify for an exemption from this provision, an issuer must not issue, during a calendar year, more than $10 million of governmental and Section 501(c)(3) bonds. It also must designate these obligations as qualifying for this exception. Thus, these bonds remain subject to the 20 percent disallowance rule of prior law. This exclusionary provision is applicable not only to the original purchaser but to all subsequent owners of these designated obligations.

Whether an issue is designated to retain the 80 percent deductibility of cost of carry is material information which should be disclosed to customers prior to or at the time of trade under rule G-17 on fair dealing. While this information is important to bank customers, it also should be disclosed to non-bank customers because the retention of bank deductibility may affect the price of the security.

Draft Amendments

The Board has received information from members of the industry which suggests that it may be difficult to determine whether securities are designated as eligible for bank deductibility, especially when such securities are traded in the secondary market. The Board also is concerned that investors may not be aware of the eligibility designation and therefore may sell these securities at inappropriately low prices. Because of the importance of this information, the Board is requesting comment on draft amendments to rules G-12(c) and G-15(a) which would require that confirmations of transactions in these securities note in the description field, when applicable, that the obligations are designated as eligible for bank deductibility. The confirmation disclosure requirement for issues designated as eligible for bank deductibility would be applicable only to issues which are identified by the issuer as such.[1]

December 22, 1986

Text of Draft Amendments*

Rule G-12. Uniform Practice

(a) and (b) No change.

(c) (i) through (v) No change.

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

(A) through (D) No change.

(E) if the securities are identified by the issuer as eligible for bank deductibility, a designation to that effect;

(E) through (H) relettered (F) through (I)

(d) through (I) No change.

* * * * *

Rule G-15(a). Customer Confirmations

(i) and (ii) No change.

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

(A) through (D) No change.

(E) if the securities are identified by the issuer as eligible for bank deductibility, a designation to that effect;

(E) through (I) relettered (F) through (J).

(b) through (e) No change.

Comments on the matters discussed in this notice should be submitted not later than March 15, 1987 and may be directed to Diane G. Klinke, Deputy General Counsel. Written comments will be available for public inspection.

[1]Issuers must designate issues as bank eligible for such eligibility to exist.
*Underlining indicates new language.

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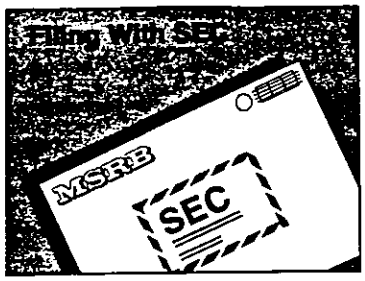

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Recordkeeping Requirements for Suitability Information: Rule G-8

Amendment Filed

Dealers would be required to maintain information concerning a customer's financial background, tax status and investment objectives.

On December 31, 1986, the Board filed with the Securities and Exchange Commission an amendment to rule G-8(a)(xi) that would require municipal securities dealers to record and maintain suitability information obtained pursuant to rule G-19(b) on customer account records.[1] The proposed amendment specifies information concerning the customer's financial background, tax status and investment objectives, as well as any other information used or considered to be reasonable and necessary by municipal securities dealers in making recommendations to customers. The Board has concluded that a suitability recordkeeping requirement would provide additional investor protection by facilitating a dealer's discharge of its suitability responsibilities. It also would be valuable to dealers in making recommendations and would assist municipal securities principals and regulatory examiners in reviewing transactions for compliance with rule G-19(b). The proposed amendment will become effective upon approval by the Commission.

In September 1986, the Board published for comment a draft amendment to rule G-8(a)(xi) on recordkeeping to require dealers to record and maintain information furnished by a customer pursuant to rule G-19(b) on suitability.[2] The Board received 16 comment letters in response to the draft amendment. The comments indicated that many municipal securities brokers and dealers already maintain written suitability information.[3] Several commentators stated that in order to meet their suitability obligations under rule G-19, they document information relating to a customer's financial background, tax status and investment objectives. None of these commentators stated that they have found suitability recordkeeping to be particularly burdensome. A number of commentators opposing the draft amendment argued that a suitability recordkeeping requirement would be unduly burdensome, would not provide additional protection to investors, and would require recordkeeping that is not specifically required of the corporate securities industry. Certain commentators also noted that the information would have to be updated periodically and a suitability recordkeeping requirement could lead to "second guessing" by regulatory examiners.

The proposed amendment permits dealers to determine the least burdensome method of recording the suitability information. The Board suggests that recording suitability information should afford some protection to dealers in the event the suitability of a recommendation subsequently is questioned. The information also would be useful to dealers when a customer continues to use the same dealer after the salesperson originating the account no longer is employed by the dealer.

The Board understands that, although the corporate securities industry is not subject to formal suitability recordkeeping requirements, that industry has a long-standing practice of documenting suitability information. New York Stock Exchange ("NYSE") rule 405 provides that a member firm must use "due diligence to learn the essential facts relative to every customer," and the NYSE strongly recommends at a minimum "obtaining and recording information necessary to know your customer" when opening a new account.[4] The American Stock Exchange has taken a similar position for its members.[5] A number of commentators also stated that they routinely record suitability information when opening new accounts.

With respect to the argument that suitability records would have to be updated periodically, rule G-19, on suitability,

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

[1]SEC File No. SR-MSRB-86-15. Comments filed with the SEC concerning this amendment should refer to the filing number. Rule G-19(b), on suitability, provides that before making a recommendation to a customer a dealer must have knowledge about the customer's "financial background, tax status and investment objectives. . . ." The rule further states that the dealer must use such information to determine whether the securities are a suitable investment for that customer. Rule G-8(a) (xi), on books and records, requires dealers to obtain and record certain information concerning each customer account but does not currently require dealers to document suitability information obtained pursuant to rule G-19(b).

[2]*MSRB Reports*, vol. 6, no. 4 (September 1986) at 5. The Board considered but declined to adopt a similar amendment to rule G-8(a)(xi) in 1980.

[3]The comment letters are available at the Board's offices and may be reviewed by interested parties.

[4]*Patterns of Supervision, A Guide to the Supervision and Management of Registered Representatives and Customer Accounts* [NYSE] p. 41 (January 1982).

[5]The Board understands that the Office of the Comptroller of the Currency ("OCC") also strongly encourages national bank dealers to maintain a record of suitability information.

already requires a dealer to make a suitability determination each time it recommends a transaction to a customer, and rule G-8, on books and records, requires that written records be kept current. The proposed amendment, therefore, would not impose any additional burden upon a dealer other than requiring the dealer to document any material change in the information recorded; if the investor should refuse to provide the requested information, a notation to that effect could be recorded.

Finally, with respect to concerns that examiners might "second guess" a dealer's suitability determination based solely on the information recorded on a customer account record, the Board notes that the proposed amendment is intended only to give examiners a starting point from which to review compliance with rule G-19, on suitability. Moreover, the Board understands that many bank dealers and integrated firms already maintain suitability records and is not aware of any instances in which a dealer has been cited for violating rule G-19 based solely on the information documented on the customer account record.

December 31,1986

Text of Proposed Amendment*

Rule G-8. Books and Records to be Made by Municipal Securities Brokers and Municipal Securities Dealers.

(a) Description of Books and Records Required to be Made. Except as otherwise specifically indicated in this rule, every municipal securities broker and municipal securities dealer shall make and keep current the following books and records, to the extent applicable to the business of such municipal securities broker or municipal securities dealer:

(i) through (x) No change.

(xi) Customer Account Information. A record for each customer, other than an institutional account, setting forth the following information to the extent applicable to such customer:

(A) through (E) No change.

(F) information obtained pursuant to rule G-19(b) such as the customer's financial background, tax status, and investment objectives or such other information used or considered to be reasonable and necessary by such municipal securities dealer in making recommendations to the customer.

(F)–(J) relettered (G)–(K)

For purposes of this subparagraph, the terms "general securities representative" and "general securities principal" shall mean such persons as so defined by the rules of a national securities exchange or registered securities association. For purposes of this subparagraph, the term "institutional account" shall mean the account of an investment company as defined in section 3(a) of the Investment Company Act of 1940, a bank, an insurance company, or any other institutional type account. Anything in this subparagraph to the contrary notwithstanding, every municipal securities broker and municipal securities dealer shall maintain a record of the information required by items (A), (C), ~~(G)~~ (H), (H) (I), and ~~(J)~~ (K) of this subparagraph with respect to each customer which is an institutional account.

(xii) through (xiv) No change.

(b) through (g) No change.

*Underlining indicates new language; broken rule indicates deletions.

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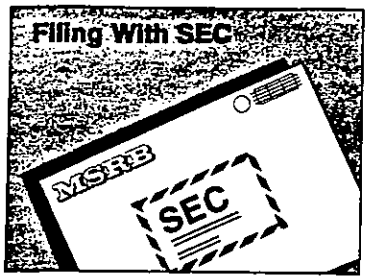

Route To:

- ☒ Manager, Muni. Dept.
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Interest Payment Claim Procedure for Book-Entry Deliveries: Rule G-12

Amendment Filed

The amendment would make the interest claim procedure in rule G-12(l) applicable to certain book-entry transactions.

On December 31, 1986, the Board filed with the Securities and Exchange Commission an amendment to rule G-12(l) on interest payment claims.[1] The proposed amendment would add to the interest payment claim procedure set forth in rule G-12(l) claims based on certain types of book-entry transactions. The amendment will become effective upon approval by the Commission.

Rule G-12(l) currently provides a procedure for dealers to make claims against other dealers for misdirected interest payments on municipal securities. The rule identifies the dealer to which an interest payment claim should be directed and the content of the written notice of claim. A dealer receiving a claim made under the procedure must pay the claim or provide a statement of its basis for denying the claim within 10 business days following receipt of the claim (20 business days if the claim involves an interest payment scheduled to be made more than 60 days prior to the date of the claim). Rule G-12(l) currently addresses only claims based on physical deliveries of securities.

In certain circumstances, an interest payment made on a municipal security delivered by book-entry may be directed to the wrong party. Specifically, if the contractual settlement date of a transaction is prior to the interest payment date of the security, and book-entry delivery is made through a depository on or after the interest payment date, the depository will not automatically credit the purchaser with the interest payment that it is due on the transaction. Therefore, the dealer making the book-entry delivery must provide the purchaser with the correct interest payment for the security.

A dealer receiving a book-entry delivery on which an interest payment is due may refuse to accept the delivery until some arrangement is made regarding the interest payment. Alternatively, the dealer may accept the delivery without the interest payment and then request the interest payment from the dealer making the delivery. The amendment would allow a dealer seeking such an interest payment to use the Board's interest payment claim procedure to make a claim against the delivering dealer.[2] A dealer receiving a claim made under the procedure would have to respond by paying the interest payment or stating its reason for its refusal to do so within the time periods currently specified in rule G-12(l).

December 31, 1986

Text of Proposed Amendment*

Rule G-12. Uniform Practice

(a)–(k) No change.

(l) Interest Payment Claims. A broker, dealer or municipal securities dealer seeking to claim an interest payment on a municipal security from another broker, dealer or municipal securities dealer may claim such interest payment in accordance with this section. A broker, dealer or municipal securities dealer receiving a claim made under this section shall send to the claimant a draft or bank check for the amount of the interest payment or a statement of its basis for denying the claim no later than 10 business days after the date of receipt of the written notice of the claim or 20 business days in the case of a claim involving an interest payment scheduled to be made more than 60 days prior to the date of the claim.

(i) Determining Party to Receive Claim. A claimant making an interest payment claim under this section shall direct such claim to the party described in this paragraph (i).

(A)–(C) No change.

(D) Deliveries by Book-Entry. An interest payment claim arising out of a transaction with a contractual settlement date before, and settled by book-entry on or after, the interest payment date of the security shall be directed to the broker, dealer or municipal securities dealer that made the delivery.

(ii) No change.

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

[1] SEC File No. SR-MSRB-86-16. Comments on the amendment should be filed directly with the Commission and should refer to the filing number.

[2] A customer receiving a book-entry delivery also may reject the delivery if an interest payment is due or may accept the delivery and file an interest payment claim. Rule G-15(e) requires dealers to respond to any customer interest payment claim within 10 business days (20 business days for claims based on interest payments over 60 days old).

*Underlining indicates additions.

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Open Inter-Dealer Transactions: Rule G-12

Summary of Comments

The Board determines that further rulemaking activity concerning open inter-dealer transactions presently is unnecessary.

In September 1986, the Board published a notice requesting comment on the nature and the extent of the problems created by open inter-dealer transactions and also requesting suggestions from the industry on how the Board might address any problems that are revealed.[1] Specifically, the Board asked whether it should provide selling dealers with a procedure to resolve open transactions and whether such a procedure would be fair to purchasing dealers. After considering the comments, the Board has concluded that the problem of open inter-dealer transactions does not warrant further rulemaking activity at this time.

Background

Under rule G-12(h), the close-out procedures for inter-dealer transactions may be initiated by a purchasing dealer up to 90 business days after the settlement date of an open transaction. The purchasing dealer is not required to initiate a notice of close-out with respect to an open transaction nor is the purchasing dealer required to execute notices of close-out that it has initiated.[2] A selling dealer is not provided a general right to initiate a close-out under G-12(h).[3] Therefore, if the purchasing dealer allows the 90-day period for close-outs to expire, a failed transaction remains open until it is resolved by agreement of the parties or by arbitration.

Summary of Comments

The Board received seven comment letters and one oral comment in response to the notice, as well as informal comments from a number of industry members. Based on the comments received, there does not appear to be a need for Board rulemaking in this area.[4] Two commentators stated that they experience no problem; others suggested that the number of open transactions varies widely from dealer to dealer.

Of the commentators indicating that a problem exists with open inter-dealer transactions, several causes were reported. Several commentators stated that a primary cause of transactions remaining unresolved is a lack of attention to open transactions by the appropriate persons at dealers' offices. One commentator suggested that open transactions are resolved more quickly if made the responsibility of trading personnel. Other commentators stated that the existence of open transactions may be, in part, a result of dealer's reluctance to use the close-out rules that are currently available.

None of the commentators supported creation of a seller's close-out. Several industry members pointed out that such a procedure would unfairly shift the market risk of a failed transaction from the selling dealer (which failed to deliver) to the purchasing dealer. Two commentators suggested that the Board extend the 90-day period or eliminate the time limitation for initiating buyer's close-outs. The rationale of this suggestion is to allow open transactions to be closed out at any time by the purchasing dealer. With respect to this suggestion, the Board has considered previously the time limit for close-outs, and concluded that the existence of the 90-day limit serves to foster timely resolution of open transactions. Another commentator suggested mandatory arbitration after 120 days to resolve open transactions. The Board notes that arbitration is now an option available to either dealer in any open transaction.

Conclusion

Based on the comments received, the Board believes that the problem of open inter-dealer transactions does not warrant further rulemaking activity at this time. The Board believes that increased communication between the parties involved in open transactions will facilitate resolution of such transactions and urges dealers to review their procedures for ensuring that open transactions receive the attention of the

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

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[1] *MSRB Reports*, vol. 6, no. 4 at 7.

[2] The purchasing dealer may execute a previously issued notice of close-out using one of three options: (i) "buy-in" identical securities for the account and liability of the selling dealer; (ii) agree with the selling dealer to accept substitute securities; or (iii) require the selling dealer to repurchase the securities, the selling dealer paying any increase in the market value of the securities (a "mandatory repurchase").

[3] The only instance in which a selling dealer may initiate a close-out is when the selling dealer makes a good delivery of securities which is rejected by the purchasing dealer.

[4] The comment letters are available at the Board's offices and may be reviewed by interested parties.

appropriate personnel. The Board reminds dealers that arbitration is available as a means of resolving any disputes involving open transactions that cannot be resolved by agreement. The Board urges dealers to seek timely resolutions of open transactions in order to provide a more efficient operation of the marketplace.

December 15,1986

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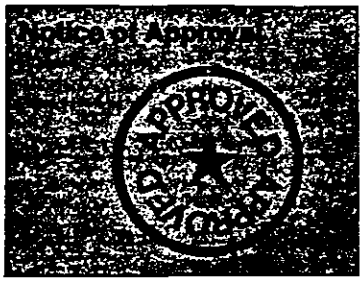

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Customer Account Transfers: Rule G-26

Amendments Approved

When transferring a customer account the carrying dealer is

- **required to request, in writing, instructions from the customer as to the disposition of any "nontransferable" assets,**
- **allowed to take exception to a transfer instruction only if it has no record of the account, the transfer instruction is incomplete or the transfer instruction contains an improper signature, and**
- **required to use a designated transfer instruction form.**

On October 17, 1986, the Securities and Exchange Commission approved amendments to rule G-26 concerning customer account transfers.[1] Rule G-26 is designed to ensure that customer account transfers are accomplished in a timely and efficient manner by municipal securities dealers. The rule parallels rules adopted by the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) and ensures that a uniform account transfer standard applies to all municipal securities dealers. The amendments conform rule G-26 to certain of the provisions of the NYSE and NASD rules that have been adopted subsequent to the effective date of rule G-26 in February 1986. The amendments became effective upon their approval by the Commission.

Background

Rule G-26 requires municipal securities dealers to cooperate in the transfer of customer accounts. The rule establishes specific time limits, generally 10 days, within which a dealer is 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. 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.

Summary of Amendments

In order for the Board's account transfer procedure to remain similar to that required by the NYSE and the NASD rules, the Board determined to amend rule G-26 to conform to certain of the provisions of the NYSE and NASD requirements adopted subsequent to the effective date of rule G-26 that have application to municipal securities. The amendments provide that if an account includes a "nontransferable" asset,[2] the dealer carrying the account must request, in writing, instructions from the customer as to the disposition of the asset, which includes liquidation of the asset or retention by the carrying dealer. In addition, the amendments allow the carrying dealer to take exception to a transfer instruction only if: (1) it has no record of the account on its books; (2) the transfer instruction is incomplete; or (3) the transfer instruction contains an improper signature. The amendments also designate a transfer instruction form, Form G-26, for use for transfers of customers' municipal securities accounts.[3] Finally, the amendments provide for other technical amendments to rule G-26, including the type of information regarding the securities in the customer account which the carrying dealer must deliver to the receiving dealer.

October 17, 1986

Text of Amendments*

Rule G-26. Customer Account Transfers

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

(i) The term "delayed delivery asset" means an asset subject to a delayed delivery and includes when-issued

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

[1]SEC Release No. 34-23725.
[2]A "nontransferable" asset is defined as an asset that is incapable of being transferred from the carrying dealer to the receiving dealer because it is an issue in default for which the carrying dealer does not possess the proper denominations to effect delivery and no transfer agent is available to re-register the securities.
[3]Form G-26 is reprinted after the amendments.
*Underling indicates new language; broken rule indicates deletions

securities.

(ii) The term "in-transfer asset" means an asset which has been submitted to the registrar or transfer agent for transfer and shipment to the customer at the time the transfer instruction is received by the carrying party.

(iii) The term "nontransferable asset" means an asset that is incapable of being transferred from the carrying party to the receiving party because it is an issue in default for which the carrying party does not possess the proper denominations to effect delivery and no transfer agent is available to re-register the securities.

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

(c) Transfer Instructions.

(i) Parties may use Form G-26, the transfer instruction prescribed by the Board, or the transfer instructions required by a clearing agency registered with the Securities and Exchange Commission in connection with its automated customer account transfer system, or transfer instructions that are substantially similar to those required by such clearing agency, when accomplishing account transfers pursuant to this rule.

(ii) If an account includes any nontransferable assets, the carrying party must request, in writing and prior to or at the time of validation of the transfer instruction, further instructions from the customer with respect to the disposition of such assets. Such request shall provide the customer with the following alternative methods of disposition of nontransferable assets, if applicable:

(A) liquidation, with a specific indication of any redemption or other liquidation-related fees that may result from such liquidation and that those fees may be deducted from the money balance due the customer; or

(B) retention by the carrying party for the customer's benefit.

(d) Transfer Procedures.

(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) A carrying party may take exception to a transfer instruction only if:

(A) it has no record of the account on its books;

(B) the transfer instruction is incomplete; or

(C) the transfer instruction contains an improper signature.

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

(iv) Upon validation of a transfer instruction, the carrying party must:

(A) "freeze" the account to be transferred, *i.e.*, all open orders must be cancelled and no new orders may be taken; and

(B) return the transfer instruction to the receiving party with an attachment indicating all securities positions and any money balance in the account as shown on the books of the carrying party. Except as hereinafter provided, the attachment must include a then-current market value for all assets in the account. However, delayed delivery assets, nontransferable assets, and assets in-transfer to the customer, need not be valued, although the "delayed delivery," "nontransferable," or "in-transfer" status of such assets, respectively, must be indicated on the attachment. A carrying party must provide the description set forth in rule G-12(c)(v)(E) with respect to any municipal security that has not been assigned a CUSIP number in an account it is to transfer.

(iii) (v) 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 receiving party and the carrying party must immediately establish fail-to-receive and fail-to-deliver contracts at the then-current market value 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. Nontransferable assets and assets in-transfer to the customer are exempt from the requirement that fail-to-receive and fail-to-deliver contracts must be established for positions in a customer's securities account that have not been physically delivered. Zero value fail-to-receive and fail-to-deliver instructions shall be established for delayed delivery assets. The customer's account(s) shall thereupon be deemed transferred.

(vi) To the extent any assets in the account are not readily transferable, with or without penalties, such assets are not subject to the time frames required by the rule; and if the customer has authorized liquidation of any nontransferable assets, the carrying member must distribute the resulting money balance to the customer within five business days following receipt of the customer's disposition instructions.

(b) (e) Fail Contracts Established.

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

(e) (f) Prompt Resolution of Discrepancies. 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) (g) Exemptions.

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) (h) Participant in a Registered Clearing Agency. 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) (i) Forwarding Copy of Form G-26 to Enforcement Authority on Request. The carrying party shall forward a copy of each customer account transfer instruction issued pursuant to paragraph (e) (c)(i) to the enforcement authority having jurisdiction over the carrying party member, at the request of such authority.

Text of Form G-26

FORM G-26
CUSTOMER ACCOUNT TRANSFER INSTRUCTION

Date:

Receiving Party — Carrying Party

Receiving Party Account Number — Carrying Party Account Number

Account Title — Tax ID or SS Number

To:

Receiving Party Name and Address

Please receive my entire account from the below indicated carrying party and remit to it the debit balance or accept from it the credit balance in my municipal securities account.

To:

Carrying Party Name and Address

Please transfer my entire municipal securities account to the above indicated receiving party, which has been authorized by me to make payment to you of the debit balance or to receive payment of the credit balance in my municipal securities account. I understand that to the extent any assets or instruments in my municipal securities account are not readily transferable, with or without penalties, such assets or instruments may not be transferred within the time frames required by rule G-26 of the Municipal Securities Rulemaking Board.

I understand that you will contact me with respect to the disposition of any assets in my municipal securities account that are nontransferable. If certificates or other instruments in my securities account are in your physical possession, I instruct you to transfer them in good deliverable form to enable such receiving firm to transfer them in its name for the purpose of sale, when and as directed by me.

Upon validation of this transfer instruction, I instruct you to cancel all open orders for my municipal securities account on your books.

Customer's Signature — Date

Customer's Signature (If joint account) — Date

It is suggested that a copy of the customer's most recent account statement be attached.

Receiving Party Contact

Name — Phone Number

MSRB REPORTS

Volume 7, Number 1

January 1987

New Issues of *MSRB Manual* and *MSRB Rules*

Updated issues of the *MSRB Manual* and *MSRB Rules*, dated October 1, 1986, are now available.

The *MSRB Manual*, published by Commerce Clearing House, includes the texts of the Securities and Exchange Act of 1934, the Securities Investor Act of 1979, Board rules, pertinent regulations of other agencies and notices concerning rule amendments. The *MSRB Rules* contains Board rules, interpretive notices and samples of forms. Use of the *Rules* satisfies the requirements of rule G-29.

Copies of the updated *MSRB Manual* and *MSRB Rules* may be obtained from the Board's offices by submitting a completed order form along with payment for the full amount due. The cost of the *Manual* is $6.00 per copy and of the *Rules*, $2.50 per copy. The order form is on page 34 of this issue.

Publications List

Manuals and Rule Texts

MSRB Manual
Complete text of MSRB rules, interpretive notices and letters. Includes 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. Also includes notices on proposed, amended and rescinded rules from exposure draft through SEC approval. Reprinted semi-annually.
October 1, 1986 ..... $6.00

MSRB Rules
Complete text of MSRB rules, interpretive notices and letters as reprinted in the *MSRB Manual*. Also includes samples of forms. Use of the *Rules* satisfies the requirements of rule G-29. Reprinted semi-annually.
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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.
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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.
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Arbitration Information and Rules
Pamphlet reprinting SICA's *Arbitration Procedures* and *How to Proceed with the Arbitration of a Small Claim*, text of rules A-16 and G-35, glossary of terms, and list of sponsoring organizations.
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Instructions for Beginning an Arbitration
Step-by-step instructions and forms needed for filing an arbitration claim.
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MSRB REPORTS

Volume 7, Number 1 January 1987

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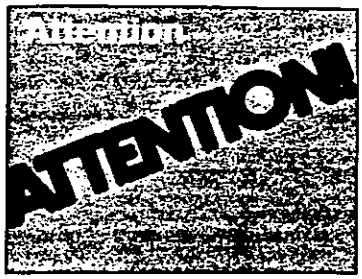
MSRB REPORTS

Volume 7, Number 1

January 1987



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- ☐ Compliance
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- ☐ Other _____

Financial Statements— Fiscal Years Ended September 30, 1986 and 1985

Coopers & Lybrand

certified public accountants

To the Members of the
Municipal Securities Rulemaking Board

We have examined the balance sheets of the Municipal Securities Rulemaking Board as of September 30, 1986 and 1985, and the related statements of revenues and expenses and change in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Municipal Securities Rulemaking Board as of September 30, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

1800 M Street, N. W.
Washington, D. C. 20036
November 14, 1986

MUNICIPAL SECURITIES RULEMAKING BOARD
BALANCE SHEETS
September 30, 1986 and 1985

	1986	1985
ASSETS		
Cash	$ 54,553	$ 121,118
Investments (Notes 1 and 2)	3,906,470	860,549
Assessment fees receivable (Note 1)	535,678	425,965
Accrued interest receivable	83,893	23,284
Other assets	15,760	15,048
Office furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $95,413 in 1986 and $75,029 in 1985 (Note 1)	148,030	140,319
	$4,744,384	$1,586,283
LIABILITIES AND FUND BALANCE		
Accounts payable	$ 87,454	$ 62,027
Accrued salaries and vacation pay	50,166	41,882
Deferred rent credit (Note 3)	182,023	100,890
	319,643	204,799
Commitments (Note 3)		
Fund balance	4,424,741	1,381,484
	$4,744,384	$1,586,283

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

MUNICIPAL SECURITIES RULEMAKING BOARD

STATEMENTS OF REVENUES AND EXPENSES AND CHANGE IN FUND BALANCE

for the years ended September 30, 1986 and 1985

	1986	1985
Revenues:		
Assessment fees (Note 1)	$4,489,810	$1,810,798
Annual fees (Note 1)	249,900	233,825
Initial fees (Note 1)	33,800	27,300
Investment income	160,465	79,892
Board manuals and other	66,561	40,631
	5,000,536	2,192,446
Expenses:		
Salaries and employee benefits (Note 4)	726,068	715,565
Board and committee	456,037	535,852
Operations (Note 3)	369,788	391,183
Education and communication	306,647	321,164
Professional services	42,364	72,965
Depreciation and amortization (Note 1)	56,375	32,944
	1,957,279	2,069,673
Income from operations	3,043,257	122,773
Gain on termination of lease (Note 3)	-	46,844
Excess of revenues over expenses	3,043,257	169,617
Fund balance, beginning of year	1,381,484	1,211,867
Fund balance, end of year	$4,424,741	$1,381,484

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

MUNICIPAL SECURITIES RULEMAKING BOARD
STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended September 30, 1986 and 1985

	1986	1985
Sources of funds:		
Operations:		
Excess of revenues over expenses	$3,043,257	$169,617
Noncash expenses - depreciation and amortization	56,375	32,944
Funds provided by operations	3,099,632	202,561
Decrease in accrued interest receivable	-	33,054
Decrease in other assets	-	42,931
Disposition of fixed assets	10,762	5,836
Increase in accounts payable	25,427	38,254
Increase in accrued salaries and vacation pay	8,284	1,485
Increase in deferred rent credit	81,133	100,890
	$3,225,238	$425,011
Uses of funds:		
Increase in cash and investments	$2,979,356	$ 4,659
Increase in assessment fees receivable	109,713	281,005
Increase in accrued interest receivable	60,609	-
Increase in other assets	712	-
Purchase of fixed assets	74,848	139,347
	$3,225,238	$425,011

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

MUNICIPAL SECURITIES RULEMAKING BOARD
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.

Assessment fees

The underwriting assessment fee is equal to a percentage of the face amount of all municipal securities which are purchased from an issuer as part of a new issue by or through such municipal securities broker or municipal securities dealer, whether acting as principal or agent, and which have a final stated maturity of not less than two years and an aggregate par value of not less than $1,000,000. This fee amounted to .001% of all such sales from October 1, 1984 to June 30, 1985 and .002% from July 1, 1985 through September 30, 1986. 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.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

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

Investments

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

Depreciation and amortization

Depreciation of fixed assets is computed on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on the straight-line method over the shorter of the remaining lease period or the estimated useful life of the improvement.

2. Investments

A summary of investments is as follows:

	September 30, 1986	September 30, 1985
T. Rowe Price U. S. Treasury Money Fund	$ 94,938	$ 89,422
U. S. Treasury Bills	606,891	565,940
U. S. Treasury Notes	3,204,641	205,187
	$3,906,470	$860,549

3. Lease agreements

Effective December 15, 1984, the Board assigned the rights to lease its former office space to a tenant of the building and was released of all further obligations under this lease. The Board realized a net gain of $46,844, after receiving cash for assigning its rights under this lease and charging to expense the net book value of abandoned leasehold improvements.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

Commencing 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 will be $9,350 through May 1987 and $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.

Total lease expense for office space and equipment for the years ended September 30, 1986 and 1985, was $232,758 and $236,838, respectively.

4. Retirement plans

The Board has a defined-contribution retirement plan. Participation in the plan is voluntary, and all employees are eligible to participate upon attaining a minimum length of service. The Board makes contributions to an insurance company based on a percentage of the salaries of covered employees and their lengths of service. Retirement plan costs are funded as they accrue. Employees may also make voluntary contributions. Costs of the plan were approximately $50,000 in 1986 and $41,900 in 1985.

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 $10,000 in 1986 and $6,000 in 1985.

Continued

MUNICIPAL SECURITIES RULEMAKING BOARD
NOTES TO FINANCIAL STATEMENTS

5. Income taxes

Under provisions of the Internal Revenue Code and applicable income tax regulations of the District of Columbia, the Board is exempt from taxes on income other than unrelated business income. No provision for income taxes is required as of September 30, 1986 and 1985, since the Board had no unrelated business income.