

MSRB REPORTS

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Municipal Securities Rulemaking Board

August 1993

In This Issue

- **Initiatives for Municipal Securities Market Announced** p. 3

Press Release

The Board has announced aggressive initiatives dealing with political contributions and continuing disclosure in the municipal securities market.

- **Political Contributions in the Municipal Securities Market** ... p. 5

Comments Requested: Draft Rule G-37

The Board requests comments on draft rule G-37 that would (1) prohibit municipal securities dealers and their associated persons from making political contributions, directly or indirectly, to officials of issuers for the purpose of obtaining or retaining municipal securities business, and (2) require dealers to disclose, for a four-year period, all political contributions made, directly or indirectly, to officials of issuers with whom they have done business.

- **Request to Extend Operation of the CDI Pilot System for an Additional 18 Months** p. 13

Proposal Filed

The Board has requested an 18-month extension, through April 6, 1995, of its CDI Pilot system.

- **New Issue Settlement Dates — Inter-Dealer Transactions** p. 15

Amendment Approved: Rule G-12(b)

The amendment to rule G-12(b) changes the time at which a managing underwriter of a new issue must provide the settlement date to the registered clearing agency comparing transactions in the issue.

- **Book-Entry Settlement Required for DVP/RVP Customer Transactions** p. 17

Amendment Approved: Rule G-15(d)

The amendment to rule G-15(d)(iii) requires all DVP/RVP customer transactions in depository eligible securities to be settled by book-entry delivery, with two limited exceptions.

Board Elects Clapp Chairman; Menne Vice Chairman

The Board has elected its Chairman and Vice Chairman for its 1994 fiscal year. Mr. David C. Clapp will serve as Chairman and Mr. Gregory C. Menne as Vice Chairman. They will begin their terms on October 1, 1993.

Mr. Clapp is Partner-in-charge of the Municipal Bond Department at Goldman, Sachs & Co. in New York, a position he has held since 1990. Prior to 1990, he had been Partner-in-charge of public finance since 1981. Mr. Clapp joined Goldman, Sachs in 1972 as a Vice President in public finance and founder of the firm's municipal health care group. Mr. Clapp has been in the securities business for more than 30 years. He is a graduate of Kent School and Yale University.

Mr. Menne is Director of Fixed Income Management for A.G. Edwards & Sons, Inc. in St. Louis. Prior to his current position, Mr. Menne spent 14 years in the Operations Division of the firm. He has been with A.G. Edwards for 26 years and a Director of the firm since 1983. Mr. Menne is a past member of the Board of the Public Securities Association. He attended St. Louis University and the SIA Wharton School Program.

Also in This Issue

- **Board Members 1993-1994** p. 2
- **Calendar** p. 2
- **Arbitrator Training** p. 19
- **Publications List** p. 21
- **Publications Order Form** p. 23

Reminder

Invoices for the Board's annual fee of \$100 (rule A-14) will be mailed in late September. The annual fee for the 1993-94 fiscal year must be paid by October 31, 1993.

Board Members: 1993-1994

Bank Representatives

- Robert H. Drysdale**, *President & Chief Executive Officer*
PNC Securities Corp. Pittsburgh, PA
- Phillip E. Peters**, *Chief Investment Officer*
Boatmen's Bancshares, Inc. St. Louis, MO
- Ruth E. Smith**, *Senior Vice President*
Texas Commerce Bank National Association.. Houston, TX
- Anthony J. Taddey**, *Senior Vice President and Director,*
Municipal Securities Group
Bank of America San Francisco, CA
- M. Rex Teaney**, *President*
Franklin Street Trust Company Chapel Hill, NC

Public Representatives

- Alan Appelbaum**, *Partner*
Cleary, Gottlieb, Steen & Hamilton New York, NY
- Frederick W. Gaertner**, *Vice President*
The Chubb Corporation Warren, NJ
- Allice W. Handy**, *Treasurer*
University of Virginia Charlottesville, VA
- Robert B. Inzer**, *City Treasurer—Clerk*
City of Tallahassee Tallahassee, FL
- Walter K. Knorr**, *City Comptroller*
City of Chicago Chicago, IL

Securities Firm Representatives

- David C. Clapp**, *Partner*
Goldman, Sachs & Co. New York, NY
- Edwin B. Horner, III**, *First Vice President, Manager*
Scott & Stringfellow Investment Corp. Lynchburg, VA
- Gregory C. Menne**, *Director—Fixed Income Management*
A.G. Edwards & Sons, Inc. St. Louis, MO
- Edward J. Reinoso**, *President*
Reinoso & Company, Inc. New York, NY
- Andrew F. Rowley**, *Managing Director*
Morgan Stanley & Co., Inc. New York, NY

Calendar

- July 7** — Effective date for amendment to rule G-12(b) which changes the time at which a managing underwriter of a new issue must provide the settlement date to the registered clearing agency comparing transactions in the issue
- July 15** — Effective date for amendment to rule G-15(d)(iii) requiring all DVP/RVP customer transactions in depository eligible securities to be settled by book-entry delivery, with two limited exceptions
- Sept. 15** — Comments due on draft amendments relating to the suitability of recommendations to customers
- Sept. 15** — Comments due on the planned pilot program for publishing inter-dealer transaction information
- Sept. 30** — Comments due on draft rule G-37, concerning political contributions
- Oct. 31** — Annual fee payment to Board is due
- Fall 1993** — Estimated effective date for an amendment to rule G-12(f)(i) requiring essentially all inter-dealer transactions to be compared in an automated comparison system
- Pending** — Amendment to rule G-35, on the Board's arbitration code
- Pending** — Amendment to extend operation of the CDI Pilot system for an additional 18 months



Route to:

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

Initiatives for Municipal Securities Market Announced

Press Release

The Board has announced aggressive initiatives dealing with political contributions and continuing disclosure in the municipal securities market.

At its meeting in July, the Board voted to:

- propose for comment a rule prohibiting municipal securities dealers from making political contributions to issuers for the purpose of obtaining or retaining municipal securities business and requiring dealers to disclose for a four-year period all political contributions to issuers with whom they have done business; and
- promulgate rules to require written disclosure by dealers to investors alerting them to the importance and availability of continuing disclosure information affecting their investments.

In commenting on the action, Charles W. Fish, Chairman of the Board and Chairman and Chief Executive Officer of Fish & Lederer, an Orange County, California, money management firm, said, "Protecting investors and maintaining the integrity of the municipal securities market are the two primary missions of the MSRB. The initiatives announced by the Board should serve both goals well. The Board looks forward to receiving comment on these proposals and intends to move ahead as soon as possible."

Political Contributions

Under the two-part proposal on political contributions, the Board first would prohibit dealers and their associated persons from making contributions to municipal securities issuers for the purpose of obtaining or retaining municipal securities business. The term "associated persons" means, in general, securities professionals. It would apply to all situations in which an official of an issuer has discretion to select a dealer. These situations include dealers acting as negotiated underwriters,

financial advisors, placement agents, and negotiated remarketing agents.

The second part of the proposal would require dealers and associated persons to disclose contributions made to issuers in situations in which the issuer has discretion to select the dealer and does so. Dealers would disclose all contributions two years before and two years after the awarding of such business. Such information would be sent to the Board for inclusion in the Municipal Securities Information Library™ (MSIL™) system, an electronic library through which such information will be made readily available to the public.¹

Christopher A. Taylor, Executive Director of the Board, said "This two-pronged approach to the issue of political contributions should ensure that such contributions do not play a role in the awarding of business in the municipal securities market. The Board believes this aggressive action will remove any perception of problems in this area."

The Board plans to issue for comment a proposed rule by the end of August. It will review comments at its November meeting and hopes to file a rule with the SEC shortly thereafter. The SEC then must publish the rule in the *Federal Register* and invite public comment. After this comment period, the SEC will determine whether to approve the Board's rule.²

Continuing Disclosure Information

With regard to continuing disclosure information—information about the issuer's finances or activities that would affect the value of its outstanding securities—the Board will begin this fall to develop rules that would require dealers to provide customers with written disclosure about the availability and impact of continuing disclosure on their securities. Currently, there is no national requirement for disclosures by issuers to investors or to the market. In addition, whatever information is provided is not readily accessible in a central location. The lack of continuing disclosure information affects the ability of investors in the secondary market to accurately value their holdings and to find a ready market for such securities.

Mr. Fish noted that "With the growing complexity of the

Questions about this press release may be directed to Christopher A. Taylor, Executive Director.

¹ Municipal Securities Information Library and MSIL are trademarks of the Board.

² A notice concerning the proposed rule is contained on pages 5-11.

market, the Board is concerned that investors are not aware that liquidity and pricing of municipal securities are adversely affected without continuing disclosure information. The Board believes that this proposal will address these concerns but stands ready to recommend federal legislation to mandate disclosure if adequate continuing disclosure information from issuers is not made available."

Given the importance of this initiative, the Board plans to

hold a special meeting in late September to begin developing the specifics of the proposal. It intends to move as quickly as possible to propose effective requirements in this area. Mr. Taylor said, "Both initiatives by the Board continue a series of Board actions designed to address the rapid changes and increasing complexity in the market."

August 4, 1993


Route to:

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

Draft Rule G-37, Concerning Political Contributions in the Municipal Securities Market

Comments Requested

The Board requests comments on draft rule G-37 that would (1) prohibit municipal securities dealers and their associated persons from making political contributions, directly or indirectly, to officials of issuers for the purpose of obtaining or retaining municipal securities business, and (2) require dealers to disclose, for a four-year period, all political contributions made, directly or indirectly, to officials of issuers with whom they have done business. The Board also requests comments on draft amendments to rules G-8 and G-9, on recordkeeping and record retention, respectively, requiring the recording of information regarding certain political contributions.

The Board believes that the municipal market is a fair and efficient market, and that market participants adhere to high standards of professionalism and integrity in conducting their municipal securities business. Over the last few years, however, the Board has become increasingly concerned about the opportunity for abuses and the perception of problems associated with political contributions in connection with the awarding of municipal securities business. The Board has, therefore, determined that regulatory action is necessary to carry out its statutory mandate to protect investors and the integrity of the market. Accordingly, the Board requests comments on draft rule G-37 concerning political contributions.

The draft rule would: (1) prohibit municipal securities dealers and their associated persons from making political contributions, directly or indirectly, to officials of issuers for the purpose of obtaining or retaining municipal securities business, and (2) require dealers to disclose, for a four-year period, all political contributions made, directly or indirectly, to officials of issuers with whom they have done business.¹ In addition, the Board

requests comments on draft amendments to rules G-8 and G-9, on recordkeeping and record retention, respectively, requiring the recording of information regarding certain political contributions.

Background

The Board has monitored and discussed the issues surrounding political contributions since its November 1990 meeting. In August 1991, the Board published a notice expressing its concern that the process of selecting an underwriting team not be influenced by political contributions. The Board stated that it is critical that the market engender the highest degree of public confidence so that investors will provide much needed capital to state and local governments. Toward this end, the Board encouraged underwriters and state and local governments to maintain the integrity of the underwriter selection process. In May 1993, the Board published a press release noting that, since its August 1991 notice, there has been continuing concern by the Board, industry members and others regarding political contributions. The Board indicated that it would meet with issuer groups to discuss whether measures could be adopted by issuers or state legislatures to help ensure that political contributions do not influence the underwriter selection process. In addition, the Board stated that, during the next few months, it would review its authority and options for rulemaking in this area.

Description of Draft Rule G-37

Draft rule G-37 is divided into five sections, and would apply to situations in which political contributions are made to officials of issuers who are responsible for, or can influence the outcome of, the awarding of certain types of municipal securities business to dealers. "Municipal securities business" is

Comments on the draft rule should be submitted no later than September 30, 1993, and may be directed to Jill C. Finder, Assistant General Counsel. Written comments will be available for public inspection after Board review.

¹ Like all Board rules, draft rule G-37 would apply only to brokers, dealers and municipal securities dealers. As more fully discussed below, the draft rule would apply to such entities when acting as negotiated underwriters (either as managing underwriter or syndicate member), financial advisors and consultants, placement agents, and negotiated remarketing agents. However, the Board's authority does not extend to the activities of independent financial advisors or other non-dealers.

defined in the proposed rule to encompass dealers acting as negotiated underwriters (either as managing underwriter or syndicate member), financial advisors and consultants, placement agents, and negotiated remarketing agents.² Paragraph (a) states the general purpose of the rule; paragraph (b) is the prohibition on contributions made for certain purposes; paragraph (c) sets forth the rule's disclosure requirements; paragraph (d) is the definitional section; and paragraph (e) provides for a phase-in of the disclosure requirements of paragraph (c).

General Purpose of the Draft Rule

Political contributions create a potential conflict of interest for issuers, or at the very least the appearance of a conflict, when dealers make contributions to officials responsible for, or capable of influencing the outcome of, the awarding of municipal securities business and then are awarded business by these officials. The Board believes that the appearance of impropriety is as damaging as any actual improprieties that may have transpired. Such appearances can undermine investor confidence in the integrity of the market, which is essential to the long-term health of the market, both in terms of liquidity and capital-raising ability. In addition, just and equitable principles of trade require that dealers compete for the awarding of municipal securities business on merit rather than on political favoritism. Finally, the use of political contributions to obtain business creates artificial barriers to those not willing or able to make such payments, thereby harming investors and the public interest by stifling competition and increasing market costs. Thus, the Board has determined that a regulatory response is necessary to further the Board's statutory goals of, among other things, protecting investors and the public interest, preventing fraud, and promoting just and equitable principles of trade by ensuring that the high standards and integrity of the market are maintained.

Prohibition of Certain Contributions

Paragraph (b) of the draft rule would prohibit dealers, including associated persons³ and any political action committees (PACs) associated with such dealers, from, directly or indirectly, making political contributions to issuer officials for the purpose of obtaining or retaining the municipal securities business of such issuer.⁴ This prohibition is intended to apply to any contribution that is given:

- (i) to retain current business;
- (ii) to obtain future business (whether in the near-term or at a later date);
- (iii) in anticipation of some form of future business;
- (iv) to gain political clout or favoritism which can be used as leverage to secure current or future business;
- (v) to create a *quid pro quo* financial arrangement in order to secure current or future business; or
- (vi) to gain consideration for the awarding of current or future business, even if such business does not materialize.

The "contributions" contemplated by the draft rule include any gift, subscription, loan, advance, or deposit of money or anything of value made for the purpose of influencing the outcome of any candidacy, nomination, election or appointment of any person for state or local office.⁵ The term "issuer" means the governmental issuer specified in Section 3(a)(29) of the Act and the issuer of any separate security, including a separate security as defined in Rule 3b-5(a) under the Act. "Official of such issuer" or "official of an issuer" means any person who was, at the time of the contribution, an incumbent or announced candidate for any elective office of the issuer (including any election committee for such person) and who is directly or indirectly responsible for, or can influence the outcome of, the awarding of municipal securities business.

The proscription of contributions given "directly or indirectly" by dealers was modeled after Section 20(b) of the Act⁶ and is intended to prohibit dealers from using other persons as conduits in order to circumvent the rule. For example, a dealer would violate the rule by using clerical personnel to make a prohibited contribution.⁷ Similarly, a dealer would violate the rule by using family members, attorneys, or others as such conduits. A dealer also would violate the rule by giving a contribution to any person or entity when the dealer knows that the contribution ultimately is intended for an official of an issuer who can influence the awarding of municipal securities business.

The Board does not seek to prohibit dealers and their associated persons from making all political contributions. The Board does seek to prohibit those contributions made in connection with municipal securities business for the purpose of obtaining or retaining any such business. Accordingly, dealers must be prepared to establish that any contributions

² The draft rule would not apply to situations in which dealers act as competitive underwriters or competitive remarketing agents.

³ The term "dealer" used in Board rules also encompasses associated persons of such dealer, as defined in the Securities Exchange Act of 1934 ("Act"). See Board rule D-1.

Under Section 3(a)(18) of the Act, the term "person associated with a broker or dealer" or "associated person of a broker or dealer" means any partner, officer, director, or branch manager of such broker or dealer (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with such broker or dealer, or any employee of such broker or dealer except those whose functions are solely clerical or ministerial. Although a person associated with a bank dealer is defined somewhat differently from a non-bank dealer, the definition covers essentially the same persons (any person "engaged in the management, direction, supervision or performance of any of the municipal securities dealer's activities with respect to municipal securities" and persons in a control relationship.) See Section 3(a)(32) of the Act.

⁴ The proposed rule is modeled after the Foreign Corrupt Practices Act—Section 30A of the Act—which prohibits corporate issuers from making certain payments to foreign officials in order to obtain or retain business overseas.

⁵ This definition was adapted from a provision in the Public Utility Holding Company Act. Section 12(h), 15 U.S.C. Section 791(h).

⁶ Section 20(b) provides that:

It shall be unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the provisions of this title or any rule or regulation thereunder through or by means of any other person.

⁷ As stated in note 3, above, the definition of associated person under the Act does not include clerical or ministerial personnel.

made are without the intent to obtain, retain or otherwise influence the awarding of municipal securities business. Pursuant to existing Board rule G-27, on supervision, dealers would be required to establish internal procedures to ensure that prohibited contributions are not made.

While the Board determined to propose rule G-37 to deal specifically with contributions made to officials of issuers by dealers with the intent to obtain, retain or otherwise influence the awarding of municipal securities business, the Board believes that general principles of fair dealing also would be applicable in such situations. Thus, the Board believes that, even prior to the approval and effectiveness of draft rule G-37, dealers should ensure that any payments or things of value given to officials of issuers comply with the fair dealing principles embodied in existing Board rule G-17.⁸

To facilitate compliance with, and enforcement of, draft rule G-37, the Board also proposes to amend rules G-8 and G-9, concerning recordkeeping requirements and record retention, respectively. As indicated above, certain contributions would be permissible under the draft rule. The amendments to rules G-8 and G-9 would require a dealer that has been awarded municipal securities business by an issuer to maintain a record of all such contributions made to issuer officials by the dealer, any associated persons and any PAC associated with the dealer within the two years preceding and two years following the award of business. The "award" of business means the agreement between the issuer and the dealer that the dealer will perform municipal securities business, as defined above.⁹ Dealers would be required to retain such records for a six-year period.

The recordkeeping requirements will assist enforcement agencies in their efforts to inspect for and enforce dealer compliance with all the provisions of the draft rule. It is important to note that the failure of a dealer to recognize and record contributions made to all officials of issuers with whom business is done would result in a violation of rule G-8, as well as a violation of the disclosure provisions of draft rule G-37 discussed below.

Disclosure Requirements

The disclosure requirements under paragraph (c) of the draft rule would require dealers to report the total dollar amount of contributions, and the total number of contributors, to issuer officials when the issuer awards the dealer municipal securities business. The disclosure would apply to contributions made two years preceding and two years following the date of the award. The Board chose this four-year period to correspond to many state and local election cycles. Paragraph (c) is intended to ensure that any possible conflicts of interest are disclosed and that this information is made available to the public. Thus, the draft rule would require dealers to send this information to

the Board for inclusion in the Municipal Securities Information Library™ (MSIL™) system, the Board's electronic library through which such information will be made readily available to the public.¹⁰

Under paragraph (c), if a dealer is awarded municipal securities business, that dealer would disclose, on Form G-37 (Initial), the total dollar amount of contributions made (and the total number of contributors involved) to each official of the issuer within the two years preceding the awarding of such business. The triggering event for disclosure is the business awarded. Thus, the dealer would be required to submit a separate "Initial" report for each type and each instance of municipal securities business awarded. After submission of the Initial report, the dealer would be required to submit an "Update" report for two more years, on a semiannual basis with due dates specified by the Board, disclosing any additional contributions (and number of contributors) made to any and every official of the issuer. While a separate Initial report would be required for each type and each instance of municipal securities business received from a particular issuer, dealers would be permitted to include on Update reports all required information for any and all such business received from a particular issuer.¹¹

As noted above, the Board would specify due dates for Update reports. The Board is concerned that receiving Update reports from all dealers at or about the same time might create information processing problems. To process and disseminate the information as quickly and efficiently as possible, the Board has determined to specify due dates for Update reports for each dealer that submits an Initial report. This will ensure that the information will be readily available to the public through the MSIL system.

Finally, the Board has determined to phase-in the disclosure requirements of paragraph (c) so that only those contributions made on and after the effective date of the rule would be reported on Forms G-37 (Initial) and G-37 (Update).

Board Rule G-20, on Gifts and Gratuities

Draft rule G-37 would apply to political contributions by dealers. Existing Board rule G-20, on gifts and gratuities, applies to all other payments and gifts.¹² Rule G-20 was intended to prevent commercial bribery, and prohibits dealers from, directly or indirectly, giving or permitting to be given any thing or service of value in excess of \$100 per year to anyone in relation to its municipal securities activities (other than to an employee or partner of the dealer). Certain items are exempt from this prohibition, including occasional gifts of meals or tickets to theatrical, sporting, and other entertainment, as well as the sponsoring of legitimate business functions that are recognized by the IRS as deductible business expenses. Gifts of reminder advertising are also exempt from rule G-20.

⁸ Rule G-17 provides that in the conduct of its municipal securities business, each broker, dealer and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest or unfair practice.

Dealers also should be cognizant of their obligations under Board rule G-20, on gifts and gratuities, as discussed below.

⁹ Such agreements could be written or oral agreements, unless otherwise required by Board rules to be in writing (e.g., rule G-23(c), concerning financial advisory relationships).

¹⁰ Municipal Securities Information Library and MSIL are trademarks of the Board.

¹¹ Draft Forms G-37 (Initial) and G-37 (Update) are included at the end of this notice.

¹² The Board has never interpreted rule G-20 to apply to the contributions encompassed by proposed rule G-37.

However, the rule provides that such exempt gifts can not be so frequent or so expensive as to raise a suggestion of unethical conduct. The Board notes that rule G-20 is not intended to proscribe legitimate compensation for services rendered, or to restrict social relationships or legitimate business functions that do not suggest impropriety.

Request for Comments

The Board specifically requests comment on the following:

1. Does the definition of "municipal securities business," under paragraph (d) of the draft rule, address all relevant areas where issuers may have responsibility or influence in awarding business to dealers?
2. Are there other situations, not covered by the draft rule, in which contributions by dealers play a role in the awarding of municipal securities business? For instance, do dealers have relationships with parties (other than issuers) that could result in the awarding of municipal securities business to such dealers?
3. In defining the "awarding of municipal securities business," the draft rule does not (unless otherwise required) require evidence of a written agreement to trigger the rule's requirements, since in many instances there may not be any such writing. Does this present any timing problems from a compliance perspective?
4. Are the requirements of the draft reporting forms clear? Will it be possible for dealers to consolidate information, by issuer, on the Update forms?
5. In specifying due dates for Update reports, would semi-annual reporting pose any particular problems for dealers?

August 26, 1993

Text of Draft Rule, Amendments and Draft Forms G-37*

Rule G-37. Political Contributions

(a) Purpose. The purpose and intent of this rule are to ensure that the high standards and integrity of the municipal securities industry are maintained, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to perfect a free and open market and to protect investors and the public interest by: (i) prohibiting political contributions by brokers, dealers and municipal securities dealers made, directly or indirectly, to influence the awarding of municipal securities business by municipal securities issuers, and (ii) requiring brokers, dealers and municipal securities dealers to disclose all political contributions made to officials of issuers who have awarded municipal securities business to such broker, dealer or municipal securities dealer.

(b) No broker, dealer or municipal securities dealer (including any political action committee associated with the broker, dealer or municipal securities dealer) shall make a contribu-

tion, directly or indirectly, to an official of an issuer of municipal securities for the purpose of obtaining or retaining the municipal securities business of such issuer.

(c)(i) Each broker, dealer or municipal securities dealer, within the timeframes stated in paragraph (ii), shall submit to the Board reports on contributions made, directly or indirectly, by the broker, dealer or municipal securities dealer (including any political action committee associated with the broker, dealer or municipal securities dealer) to an official of any issuer of municipal securities which has awarded municipal securities business to the broker, dealer or municipal securities dealer.

(ii) Reports referred to in paragraph (i) include Initial and Update Reports. Initial Reports must be submitted to the Board on Form G-37 (Initial) within 60 calendar days of the awarding of municipal securities business by the issuer and must include the total dollar amount of contributions and number of contributors to each official of such issuer within the two years prior to the date of the award. Update Reports must be submitted to the Board on Form G-37 (Update) on a semiannual basis, with due dates determined by the Board, for two additional years after the date of the award and must include the total dollar amount of contributions and number of contributors to each official of such issuer made but not reported on either the Initial or the preceding Update Report. Contributions made within 30 calendar days of the due date of the Update Report may be reported on the succeeding Update Report.

(d) Definitions. (i) The term "contribution" means any gift, subscription, loan, advance, or deposit of money or anything of value made for the purpose of influencing the outcome of any election for state or local office.

(ii) The term "issuer" means the governmental issuer specified in section 3(a)(29) of the Act and the issuer of any separate security, including a separate security as defined in rule 3b-5(a) under the Act.

(iii) The term "official of such issuer" or "official of an issuer" means any person who was, at the time of the contribution, an incumbent or announced candidate for any elective office of the issuer (including any election committee for such person) which is directly or indirectly responsible for, or can influence the outcome of, the awarding of municipal securities business.

(iv) The term "municipal securities business" means:

(A) the purchase of a primary offering (as defined in rule A-13(d)) of municipal securities from the issuer on other than a competitive bid basis; or

(B) the offer or sale for an issuer of a primary offering of municipal securities; or

(C) the provision of financial advisory or consultant services to or on behalf of an issuer with respect to a primary offering of municipal securities; or

(D) the provision of remarketing agent services to or on behalf of an issuer with respect to a primary offering of municipal securities on other than a competitive bid basis.

* Underlining indicates new language; strikethrough denotes deletions.

(v) The term "award" means any agreement between the issuer and the broker, dealer or municipal securities dealer that the broker, dealer or municipal securities dealer will perform municipal securities business.

(e) Phase-In Disclosure pursuant to Paragraph (c). Only those contributions made on and after the effective date of the rule must be reported on Forms G-37 (Initial) and (Update). This phase-in disclosure pursuant to paragraph (c) shall expire two years after the effective date of rule G-37.

Rule G-8. Books and Records to be Made by ~~Municipal Securities Brokers, Dealers~~ 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, dealer~~ 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, dealer~~ or municipal securities dealer:

(i) through (xv) No change.

(xvi) Records Concerning Compliance with Rule G-37 on Political Contributions. A broker, dealer or municipal securities dealer that is awarded municipal securities business by an issuer of municipal securities shall maintain a record

of all contributions by the broker, dealer or municipal securities dealer (including any political action committee associated with the broker, dealer or municipal securities dealer) to an official of such issuer within the two years preceding the date of the award of the municipal securities business and all contributions to an official of such issuer for two years after the date of the award. The record shall include whether the contribution was made by the dealer, any associated political action committee, or by an associated person, the complete name and title of the person to whom the contribution was made, along with the amount and date of the contribution. For contributions made by associated persons the record must include the person's complete name and title.

(b) through (f) No change.

Rule G-9. Preservation of Records

(a) *Records to be Preserved for Six Years.* Every ~~municipal securities broker, dealer~~ and municipal securities dealer shall preserve the following records for a period of not less than six years:

(i) through (vii) No change.

(viii) the records of contributions required to be maintained pursuant to rule G-8(a)(xvi).

(b) through (g) No change.

Draft Forms G-37 (Initial) and G-37 (Update) are contained on pages 10 and 11.

DRAFT

FORM G-37 (INITIAL)

NAME OF DEALER: _____

NAME OF ISSUER: _____

MUNICIPAL SECURITIES BUSINESS AWARDED:

(CHECK ONLY ONE — COMPLETE SEPARATE FORMS G-37 (INITIAL) FOR EACH TYPE AND EACH INSTANCE OF BUSINESS AWARDED)

- _____ NEGOTIATED UNDERWRITER (ACTING EITHER AS MANAGING UNDERWRITER OR SYNDICATE MEMBER)
- _____ PLACEMENT AGENT
- _____ FINANCIAL ADVISOR OR CONSULTANT
- _____ NEGOTIATED REMARKETING AGENT

DATE OF AWARD: _____

CONTRIBUTIONS MADE:

(COMPLETE NAME AND TITLE OF EACH OFFICIAL OF THE ABOVE-NAMED ISSUER, TOTAL DOLLAR AMOUNT OF CONTRIBUTIONS AND NUMBER OF CONTRIBUTORS FOR ALL CONTRIBUTIONS MADE TO EACH SUCH OFFICIAL WITHIN TWO YEARS PRIOR TO THE DATE OF AWARD)

<u>COMPLETE NAME AND TITLE OF OFFICIAL</u>	<u>TOTAL DOLLAR AMOUNT OF CONTRIBUTIONS</u>	<u>NUMBER OF CONTRIBUTORS</u>
--	---	-----------------------------------

SIGNATURE: _____ DATE: _____
(MUST BE OFFICER OF DEALER)

NAME: _____

ADDRESS: _____

PHONE: _____

SUBMIT COMPLETED FORM WITHIN 60 DAYS OF DATE OF AWARD TO MUNICIPAL SECURITIES RULEMAKING BOARD, 1818 N STREET, N.W., WASHINGTON, D.C. 20036-2491

DRAFT

FORM G-37 (UPDATE)

NAME OF DEALER: _____

NAME OF ISSUER: _____

MUNICIPAL SECURITIES BUSINESS AWARDED:
(CHECK ONE OR MORE)

- _____ NEGOTIATED UNDERWRITER (ACTING EITHER AS MANAGING UNDERWRITER OR SYNDICATE MEMBER)
- _____ PLACEMENT AGENT
- _____ FINANCIAL ADVISOR OR CONSULTANT
- _____ NEGOTIATED REMARKETING AGENT

DATE(S) OF AWARD: _____

CONTRIBUTIONS MADE:

(COMPLETE NAME AND TITLE OF EACH OFFICIAL OF THE ABOVE-NAMED ISSUER, TOTAL DOLLAR AMOUNT OF CONTRIBUTIONS AND NUMBER OF CONTRIBUTORS FOR ALL CONTRIBUTIONS MADE TO EACH SUCH OFFICIAL AND NOT REPORTED ON EITHER THE INITIAL OR PRECEDING UPDATE REPORT)

<u>COMPLETE NAME AND TITLE OF OFFICIAL</u>	<u>TOTAL DOLLAR AMOUNT OF CONTRIBUTIONS</u>	<u>NUMBER OF CONTRIBUTORS</u>
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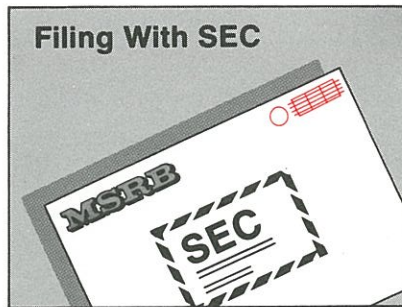
SIGNATURE: _____ DATE: _____
(MUST BE OFFICER OF DEALER)

NAME: _____

ADDRESS: _____

PHONE: _____

SUBMIT COMPLETED FORM BY DUE DATE (SPECIFIED BY THE MSRB) TO MUNICIPAL SECURITIES RULEMAKING BOARD, 1818 N STREET, N.W., WASHINGTON, D.C. 20036-2491


Route to:

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

Request to Extend Operation of the CDI Pilot System for an Additional 18 Months

Proposal Filed

The Board has requested an 18-month extension, through April 6, 1995, of its CDI Pilot system.

On August 17, 1993, the Board filed with the Securities and Exchange Commission (Commission) a proposal to request an 18-month extension, through April 6, 1995, of its Continuing Disclosure Information (CDI) Pilot system.¹ The Board has requested accelerated approval of the proposal in order to permit the Pilot system to continue to operate without interruption.

Background

On April 6, 1992, the Commission approved the CDI Pilot system for an 18-month period expiring on October 6, 1993.² The Pilot system began operating on January 21, 1993, and functions as part of the Board's Municipal Securities Information Library™ (MSIL™) system.³ The Pilot system accepts and disseminates voluntary submissions of official disclosure notices relating to outstanding issues of municipal securities, *i.e.*, continuing disclosure information. During its first phase of operation, the system accepted disclosure notices only from trustees. On May 17, 1993, the Pilot system also began accepting disclosure notices from issuers.

Currently, the system accepts only short submissions (one to three pages in length, or the equivalent in electronic form) by mail, facsimile, and electronically by computer modem, using specific Pilot system submission procedures. The system uses two methods of simultaneous dissemination to subscribers: (1) CDI that has been submitted to the system by mail or facsimile is disseminated by facsimile transmission; and (2) CDI that has been submitted to the system electronically by computer modem is disseminated electronically. In addition, after the Board processes and transmits the disclo-

sure notices to subscribers, it makes these documents available at its Public Access Facility (PAF) in Alexandria, Virginia where any interested person may review the documents, free of charge, and copy the documents at \$.20 per page (plus sales tax).

Summary of Filing

As the Commission noted in its order approving the CDI Pilot system:

Currently, a number of municipal securities issuers are experiencing financial difficulties. In such an environment, disclosure mechanisms become especially important to investors and potential investors in these securities [G]reater availability of CDI will reduce the risk of sales practice fraud and manipulation in the municipal market by making investors more informed and better able to detect such practices.⁴

During the proposed extension of the Pilot period, the Board is hopeful that more issuers and trustees will recognize the overall benefit to the market in voluntarily providing continuing disclosure information via the CDI Pilot system. In order to facilitate such information dissemination, the Board, working in conjunction with industry groups, will continue to explore the feasibility of accepting and disseminating longer documents through the CDI Pilot system.

The Board believes that the CDI Pilot system will increase the integrity and efficiency of the municipal securities market by helping to ensure that the price charged for an issue in the secondary market reflects all available official information about that issue. The Board will continue to operate the output side of the CDI Pilot system to ensure that the information is available to any party who wishes to subscribe to the service. As with all MSIL system services, this service is available, on equal terms, to any party that subscribes to the service.

August 17, 1993

Questions about the proposal may be directed to Jill C. Finder, Assistant General Counsel, or Thomas A. Hutton, Director of MSIL.

¹ File No. SR-MSRB-93-9. Comments submitted to the Commission should refer to this file number.

² Securities Exchange Act Release No. 30556. A complete description of the CDI Pilot system is contained in File No. SR-MSRB-90-4, Amendment No. 1.

³ Municipal Securities Information Library and MSIL are trademarks of the Board. The MSIL system, which was approved in Securities Exchange Act Release No. 29298 (June 13, 1991), is a central facility through which information about municipal securities is collected, stored and disseminated.

⁴ Securities Exchange Act Release No. 30556 at 25-28 (April 6, 1992).

Notice of Approval



Route to:

- Manager, Muni Dept.
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- Trading
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- Training
- Other

New Issue Settlement Dates – Inter-Dealer Transactions: Rule G-12(b)

Amendment Approved

The amendment to rule G-12(b) changes the time at which a managing underwriter of a new issue must provide the settlement date to the registered clearing agency comparing transactions in the issue.

On July 7, 1993, the Securities and Exchange Commission approved an amendment to rule G-12(b), on settlement dates for new issue municipal securities.¹ The amendment became effective upon approval.

The amendment changes the time at which a managing underwriter for a new issue must provide the settlement date for the issue to the registered clearing agency comparing inter-dealer transactions in the issue. Rule G-12(b) previously required only that managing underwriters provide the registered clearing agency with six business days notice of the settlement date. The amendment requires that the managing underwriter provide the registered clearing agency with notice of the settlement date for the issue as soon as the settlement date is known, and thereafter provide immediate notice of any changes in the settlement date.

National Securities Clearing Corporation, the registered clearing agency providing central processing services for automated comparison of municipal securities, has redesigned its automated bond comparison system² and is anticipating an implementation date of August 13, 1993. The amendment to rule G-12(b) supports the operation of the redesigned comparison system.

The Board also has filed an amendment to rule G-12(f)(i) which would require essentially all inter-dealer transactions to be compared in an automated comparison system.³ This amendment is still pending with the Commission. The Board

anticipates that it will be approved after successful implementation of the redesigned bond comparison system.

August 9, 1993

Text of Amendment*

Rule G-12. Uniform Practice

(a) No change.

(b) Settlement dates.

(i) No change.

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

(A) through (B) No changes.

(C) for "when, as and if issued" transactions, a date agreed upon by both parties, which date shall not be earlier than the fifth business day following the date the confirmation indicating the final settlement date is sent, or, with respect to transactions between the manager and members of a syndicate or account formed to purchase securities from an issuer, a date not earlier than the sixth business day following the date the confirmation indicating the final settlement date is sent; *provided, however*, that for when, as and if issued transactions compared through the automated comparison facilities of a registered clearing agency under section (f) of this rule, a managing underwriter shall provide the registered clearing agency ~~with not less than six business days notice of settlement for the issue, and the settlement date shall not be less than five business days following the date notice of the final settlement date is provided to the registered clearing agency with the settlement date as soon as it is known and shall immediately inform the registered clearing agency of any changes in such settlement date;~~ and

(D) No change.

(c) through (l) No changes.

Questions about the amendment may be directed to
Judith A. Somerville, Uniform Practice Specialist.

¹ SEC Release No. 34-32594.

² For a discussion of the redesigned comparison system, see *MSRB Reports* Vol. 13, No. 2 (April 1993) at 11-14.

³ SEC File No. SR-MSRB-93-6.

* Underlining indicates new language; strikethrough denotes deletions.

Notice of Approval



Route to:

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

Book-Entry Settlement Required for DVP/RVP Customer Transactions: Rule G-15(d)

Amendment Approved

The amendment to rule G-15(d)(iii) requires all DVP/RVP customer transactions in depository eligible securities to be settled by book-entry delivery, with two limited exceptions.

On July 15, 1993, the Securities and Exchange Commission approved an amendment to rule G-15(d)(iii) relating to book-entry settlement of DVP/RVP transactions with customers.¹ The amendment became effective upon approval.

The amendment to rule G-15(d)(iii) removes the former exception in rule G-15(d) which allowed certain DVP/RVP customer transactions in depository eligible securities to be settled with a physical delivery when one or both parties to the transaction were not participants in a depository. Under the amendment, dealers must ensure that customers receiving the DVP/RVP privilege have access to a depository, either directly or through a clearing agent, so that book-entry settlement of depository eligible securities can be accomplished.²

The amendment includes only two limited exceptions to the general requirement of book-entry settlement of all DVP/RVP customer transactions in depository eligible securities. The general requirement does not apply if securities involved in a transaction are ineligible at the depository exclusively used by one of the parties to the transaction (even though securities may be eligible at other depositories). The second exception allows a dealer to effect a physical RVP settlement with an issuer or trustee if the issuer or trustee is purchasing securities for the purpose of retiring them.³

August 9, 1993

Text of Amendment*

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

(a) through (c) No changes.

(d) *Delivery/Receipt vs. Payment Transactions.*

(i) through (ii) No change.

~~(iii) No broker, dealer or municipal securities dealer who is, or whose clearing agent with respect to such transaction is, a participant in a clearing agency registered with the Securities and Exchange Commission shall effect a transaction in any municipal security which is eligible for book-entry settlement through the facilities of such clearing agency on a delivery vs. payment or receipt vs. payment basis for the account of a customer who is, or whose agent with respect to such transaction is, a participant in such clearing agency (or in a clearing agency interfaced or otherwise linked with such clearing agency) unless the facilities of such clearing agency (or the facilities of a clearing agency interfaced or otherwise linked with such clearing agency, as necessary) are used for the book-entry settlement of such transaction.~~

(iii) Notwithstanding the provisions of section (c) of this rule, no broker, dealer or municipal securities dealer shall effect a delivery vs. payment or receipt vs. payment (DVP/RVP) customer transaction that is eligible for book-entry settlement in a depository registered with the Securities and Exchange Commission (depository) unless the transaction is settled through the facilities of a depository or through the interface between two depositories. Each broker, dealer and municipal securities dealer settling such a customer transaction on a DVP/RVP basis shall: (A) ensure that the customer has the capability, either directly or through its clearing agent, to settle transactions in a depository; and (B) submit or cause to be submitted to a depository all information and instructions required

Questions about the amendment may be directed to Judith A. Somerville, Uniform Practice Specialist.

¹ SEC Release No. 34-42640.

² Retail customer transactions, which are not done on a DVP/RVP basis, are not affected by the amendment.

³ For a complete discussion of this exception, see *MSRB Reports* Vol. 13 No. 2 (April 1993) at 11-14.

* Underlining indicates new language; strikethrough denotes deletions.

from the broker, dealer or municipal securities dealer by the depository for book-entry settlement of the transaction to occur; provided that, if a party to a DVP/RVP customer transaction has made arrangements, through its clearing agent or otherwise, to use one or more depositories exclusively, a transaction by that party shall not be subject

to the requirements of this paragraph (iii) if the transaction is ineligible for settlement at all such depositories with which such arrangements have been made; and further provided that purchases made by trustees or issuers to retire securities shall not be subject to this paragraph (iii).

(e) No change.

**Route to:**

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

Arbitrator Training

The Board wishes to apprise arbitrators of the following programs offered by other self-regulatory organizations (SROs) and non-SRO forums:

The American Arbitration Association (AAA), in cooperation with the American Stock Exchange, Inc., the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc., and a number of local and regional SROs, will present "Managing the Arbitration Process: A Training Seminar for Securities Arbitrators" on the following dates and locations:

October 13, 1993	Buffalo, NY
October 15, 1993	Phoenix, AZ
October 20, 1993	Cincinnati, OH
January 13, 1994	Orange Co., CA
January 19, 1994	Charlotte, NC
January 21, 1994	Ft. Lauderdale, FL
January 26, 1994	Cleveland, OH

The Board is a co-sponsor of these one-day programs which are for individuals who currently serve, or have an interest in serving, as arbitrators in securities disputes. Registrants will have the opportunity to exchange ideas with nationally recognized securities experts, participate in panel discussions and review hearing procedures through the use of a specially designed, stop-action videotape.

Topics to be covered include:

- Review of Arbitration Procedures
- Hearing Procedures in Securities Arbitration
- Disclosure and Ethical Issues Confronting the Arbitrator
- Review of Recent Court Decisions: The Arbitrator's Powers and Duties

The fee for AAA dues-paying members is \$140; \$175 for non-members (\$140 for MSRB-registered dealers). To register, or for further information, contact Bets Radley, AAA, Department of Education and Training, 140 West 51st Street, New York, NY 10020-1203, (212) 484-3233, Fax (212) 765-4874.

Publications List

Manuals and Rule Texts

MSRB Manual

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

April 1, 1993 \$5.00

Glossary of Municipal Securities Terms

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

1985 \$1.50

Instructions for Filing Forms G-36

This publication is available to assist underwriters in submitting official statements, advance refunding documents and complete and correct Forms G-36.

1992 no charge

Professional Qualification Handbook

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

1990 5 copies per order no charge
 Each additional copy \$1.50

Manual on Close-Out Procedures

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

January 1, 1985 \$3.00

Arbitration Information and Rules

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

1991 no charge

Instructions for Beginning an Arbitration

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

1991 no charge

The MSRB Arbitrator's Manual

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

1991 \$1.00

Reporter and Newsletter

MSRB Reports

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

Quarterly no charge

Examination Study Outlines

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

Study Outline: Municipal Securities Representative Qualification Examination

Outline for Test Series 52

July 1992 no charge

Study Outline: Municipal Securities Principal Qualification Examination

Outline for Test Series 53

January 1993 no charge

Brochure

MSRB Information for Municipal Securities Investors

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

1 to 500 copies no charge

Over 500 copies \$.01 per copy

Publications Order Form

Description	Price	Quantity	Amount Due
MSRB Manual (soft-cover edition)	\$5.00		
Glossary of Municipal Securities Terms	\$1.50		
Professional Qualification Handbook	5 copies per order no charge Each additional copy \$1.50		
Manual on Close-Out Procedures	\$3.00		
Instructions for Filing Forms G-36	no charge		
Arbitration Information and Rules	no charge		
Instructions for Beginning an Arbitration	no charge		
The MSRB Arbitrator's Manual	\$1.00		
Study Outline: Municipal Securities Representative Qualification Examination	no charge		
Study Outline: Municipal Securities Principal Qualification Examination	no charge		
MSRB Information for Municipal Securities Investors (Investor Brochure)	1 to 500 copies no charge Over 500 copies \$.01 per copy		
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