MSRB REPORTS

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Registration of Municipal Securities

Joint Recommendation of MSRB, MFOA and SEC on Transfer Efficiency and Selection of Record Date

At the request of the Municipal Securities Rulemaking Board, the following joint statement concerning certain recommended standards on transfer efficiency and the selection of record dates on all new issues of registered municipal securities has been considered and endorsed by the Municipal Finance Officers Association, the Securities and Exchange Commission, and the Board:

A Conference on Registered Municipal Securities held in October 1982 under the auspices of an MSRB Task Force recommended the following standard practices on registered municipal issues:

1. That persons serving as transfer agents on such issues adhere to the standards for efficiency in transfer followed in other securities markets, particularly that standard regarding the processing of "routine" items within 72 hours of receipt.

2. That all such issues use a standard schedule of record dates, as follows:

- **for securities paying interest on the 1st of a month, the record date should be the 15th day of the preceding month (*e.g.*, for interest payable on March 1, 1983, the record date should be February 15, 1983);**
- **for securities paying interest on the 15th day of a month, the record date should be the last business day of the preceding month (*e.g.*, for interest payable on April 15, 1983, the record date should be March 31, 1983 (the last business day)); and**
- **for securities paying interest on a date other than the 1st or the 15th of a month, the record date should be the 15th calendar day before the interest payment date (*e.g.*, for interest payable on March 31, 1983, the record date should be March 16, 1983).**

Prompt and accurate transfer of registered municipal securities will be critical to an orderly and efficient marketplace. Among other things, slow or unpredictable transfer agent performance may reduce investor confidence and increase intermediary costs and expenses. Issuers that fail to provide prompt and accurate transfer arrangements may well find reduced dealer and investor interest in their issues and may, as a result, face significantly increased municipal financing costs.

Issuers of registered municipal securities issues are therefore encouraged to use transfer agents whose transfer performance is consistent with the standards required for federally registered transfer agents. In general, those standards require transfer agents to turnaround routine items presented for transfer within three days. An issuer may choose to perform the transfer function in its own offices, but in that event the issuer is urged to undertake, voluntarily and publicly, to observe the 72-hour standard generally applicable to the transfer of other types of registered instruments.

The use of the standardized record dates on all issues of registered municipal securities is equally essential, in order to facilitate the processing and clearance of transactions in these securities and to minimize the need for burdensome interest payment claims. All participants in the market for new issue municipal securities are also urged to take steps to ensure that the standardized record dates are used on all new issues of registered municipal securities.

The Board has sought and obtained the endorsement of this joint statement by the Municipal Finance Officers Association and the Securities and Exchange Commission due to its concern that all participants in the new issue municipal securities markets be alerted to and fully understand the need for efficient transfer arrangements and standardized record dates on issues of registered municipal securities prior to the July 1, 1983 effective date of the registration requirement of the Tax Equity and Fiscal Responsibility Act

The Board will make copies of this notice available to any one wishing to distribute it to other persons active in the new issue municipal securities market. Questions concerning this notice may be directed to Donald F. Donahue, Deputy Executive Director.

of 1982, as amended.[1] The Board recognizes, as do both of the other organizations endorsing the joint statement, that inefficient transfer arrangements and the use of varying record dates on different issues would impose a serious burden on the clearance of transactions in registered municipal securities.

Transfer

The transfer function is the primary focus of concern about the registration requirement among municipal securities brokers and dealers and investors in municipal securities. In the transfer process the "transfer agent" or "bond registrar" reflects on its records of the holders of a particular municipal issue the transfer of ownership of securities of that issue by deleting the name of the prior owner and recording the name of the new owner. Typically the transfer agent or bond registrar issues a new securities certificate in the name of the new owner and destroys the previous certificate.

Due to the significant volume of transfers that will occur once all new issues of municipal securities are issued solely in registered form, investors and dealers in municipal securities are concerned that the transfer process function smoothly and efficiently. An inefficient transfer process would be of concern to investors since it might impair the liquidity of some of their portfolio holdings and would tend to decrease the value of such holdings in the secondary market. Similarly, an inefficient transfer process would significantly increase costs for dealers effecting secondary market transactions in an issuer's securities, since it would tend to increase the length of time needed to clear transactions as well as the number of uncleared ("fail") transactions.

The standards for efficiency in transfer agent performance that appear to have the support of most industry participants are those set forth in certain Securities and Exchange Commission regulations applicable to registered transfer agents.[2] Registered transfer agents are subject to a series of SEC rules regarding their activities, the most important of which, rule 17Ad-2, requires that registered transfer agents process or "turn around" at least 90 percent of routine items (*e.g.*, certificates presented for transfer) received during any month within three business days of their receipt.

Adherence to the 72-hour "turnaround" standard by all persons performing transfer agent functions with respect to registered municipal securities would ensure that transfer items are handled efficiently. Issuers are urged to use transfer agents who are capable of meeting this standard, or, if the issuer elects to serve as its own transfer agent, to commit publicly to adhering to the standard.[3]

Record Date

As is the case with a coupon-bearing security, the "paying agent" for a registered issue of municipal securities (who may also be the transfer agent, registrar or trustee for the issue) is responsible for disbursing interest payments on the issue. However, in contrast to the coupon-bearing security, on which interest is paid when due upon presentation of the appropriate coupon, the paying agent on a registered issue normally mails to the registered owners of the securities checks for the amount of the interest due. Such checks are usually disbursed automatically on the interest payment date.

To perform this function the paying agent must obtain the names of such owners prior to the payment date. This is generally done by recording all such names as of a fixed date prior to the payment date, which date is referred to as the "record date." Normal transfer activities continue after the record date, but the interest payment on a particular certificate will be mailed to the registered owner of that certificate as of the record date, whether or not the ownership of the certificate is transferred during the period between the record date and the interest payment date.[4] As a result, dealers effecting transactions in registered securities during this period are required to include with deliveries checks in the amount of the interest due.

To eliminate uncertainty in the clearance of securities during the period between the record date and the interest payment date it is essential that all registered municipal securities use the same, standardized record dates. Use of the standardized record dates would ensure that all parties to a transaction would know the time by which a certificate must be submitted for transfer, or, alternatively, whether a check for interest due must accompany a particular delivery of securities. If different record dates are used for different issues there will be considerable uncertainty as to both of these matters, with persons effecting transactions in these securities having to research the specific record date applicable to each issue in order to determine how to proceed with deliveries or transfers. This need for issue-by-issue determination of the applicable record date would significantly complicate the handling of registered municipal securities and contribute to inefficiency in the clearance of transactions in such securities. The use of the standardized record dates described in the joint statement would eliminate this problem.

May 6, 1983

[1]Although the joint statement was prepared in the context of the impending effectiveness of the registration requirement of TEFRA, the Board notes that its recommendations are equally applicable to new issues of municipal securities which are currently required to be issued in registered form (*e.g.*, mortgage revenue securities).

[2]Securities and Exchange Commission rules 17Ad-2 through 17Ad-7, under the Securities Exchange Act of 1934 [17 CFR 240.17Ad-2 to 17Ad-7 (1982)], establish comprehensive performance standards for registered transfer agents. Although these standards are mandatory only for federally registered transfer agents that perform transfer functions for both corporate and municipal securities (see Securities Exchange Act Release No. 17111 (September 11, 1980)), these standards also may constitute a practical model for entities performing transfer functions for registered municipal securities only.

[3]It is important for entities performing transfer agent functions for registered municipal securities issues to announce publicly their voluntary adherence to the 72-hour industry standard. Such an announcement would serve to notify brokers and clearing agencies of projected transfer performance and may be crucial for depository eligibility of a particular securities issue.

[4]The Board notes that certain participants in the Conference on Registered Municipal Securities called attention to the practice of "closing the books" on transfer activities for a period preceding the interest payment date, with transfer items refused until after the payment date. These persons expressed the view that this practice seriously impeded the efficiency of the transfer process and would cause delays in the handling of such securities in the secondary market. They urged that this practice not be followed on any registered municipal issues.

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Rule G-12

Amendment Withdrawn Regarding Denominations of Registered Securities

In December 1982, the Board adopted and subsequently filed with the Securities and Exchange Commission an amendment to the provisions of rule G-12(e)(v) regarding denominations of municipal securities certificates. The proposed amendment provided that, with respect to registered securities issued on or after January 1, 1983, certificates in denominations of $5,000 shall be considered standard for delivery purposes until January 1, 1985. The Board's action at that time was precipitated by passage of the Tax Equity and Fiscal Responsibility Act ("TEFRA") in September 1982 which required that most municipal securities issued after December 31, 1982 be issued in "registered form" (as defined in TEFRA) in order to preserve their tax-exempt status.[1] The Board's proposed amendment was intended to address expected clearance delays caused by inefficiencies in the transfer of municipal securities in registered form. While the Board continues to be very concerned about this problem, upon reconsideration the Board has determined that the proposed amendment is not an appropriate means of resolving it. Accordingly, the Board has withdrawn the proposed amendment.

Board rule G-12(e)(v) specifies the certificate denomination sizes which are considered to be standard for delivery purposes. For securities in registered form, rule G-12(e)(v)(B) currently specifies certificate denominations in multiples of $1,000 not to exceed $100,000 as standard for delivery purposes. Registered certificates in other denominations such as $500 or $250,000 per certificate, are not acceptable for delivery purposes unless specific agreement to this effect is reached at the time of trade.

In examining the impact of the registration provisions of TEFRA on the municipal securities markets, all parts of the municipal industry—dealers, banks, issuers, bond attorneys, clearing agencies and depositories, and investors—have recognized that in order to avoid significant disruptions to the market, efficient and accurate performance of the transfer function is essential.[2] Subsequent to the enactment of TEFRA several industry members and organizations expressed concern that performance of the transfer function, once all new issues were exclusively in registered form, would in many cases be inefficient or inaccurate. Certain of these industry representatives recommended that the Board consider amending rule G-12(e)(v)(B) in order to avoid clearance problems associated with the use of large-denomination registered certificates.

In December 1982, based upon the information available to it at that time, the Board determined that it would be appropriate to adopt an amendment to rule G-12(e)(v)(B) specifying that, unless the parties to a transaction in registered securities agree otherwise, certificates in denominations of $5,000 par value would be required to be delivered on all transactions in registered securities issued on or after January 1, 1983.[3]

The Board's adoption of the proposed amendment was motivated by its concern that the use of larger denomination certificates (such as the $100,000 par value certificates permitted under the current rule) for deliveries on transactions in registered municipal securities might result in undue delays in the clearance of such transactions, because of the need to transfer certificates to obtain alternative, smaller denomination certificates.[4] In view of the possibility that transfer arrangements on many municipal issues might not meet recognized standards of efficiency during the initial implementation of the registration requirement, the chance of substantial clearance delays appeared significant. Accordingly, the Board adopted the proposed amendment as an

Questions concerning this notice may be directed to Donald F. Donahue, Deputy Executive Director.

[1] Subsequently, the Congress passed a bill delaying the effective date of the registration provisions of TEFRA for six months. As a result, those provisions will apply to new issues of municipal securities issued after June 30, 1983.

[2] See, for example, the discussion of the transfer function in the *Report of the Conference on Registered Municipal Securities*.

[3] The provisions of TEFRA were originally scheduled to become effective on January 1, 1983. In order to have the amendment in place as soon as possible, the Board did not solicit public comment prior to adopting the amendment and filing it with the Commission for approval.

[4] For example, a dealer might purchase $100,000 par value municipal securities, and resell the securities in two transactions of $50,000 par value each. If a single $100,000 par value denomination certificate were delivered on the purchase transaction, the dealer would have to submit the securities to transfer to obtain the two $50,000 par value denomination certificates needed for its delivery obligations.

interim measure designed to minimize such delays. The proposed amendment was, by its terms, subject to a "sunset" date of January 1, 1985, by which time the Board anticipated that efficient transfer arrangements would be in place for all issues of municipal securities.

Subsequent to the filing of the proposed amendment, the Board and the Commission received several comment letters from issuers of municipal securities, transfer agents, and others, who asserted that the use of $5,000 denomination certificates as the standard for deliveries of registered securities would significantly increase issuance costs and impose excessive burdens on the transfer process. These persons indicated, for example, that the need to process a much larger volume of registered certificates would be likely to contribute to inefficiencies in the transfer function, particularly around the record date. They noted also that the need for a greater number of certificates would substantially increase issuer's printing costs, and would delay the new issue delivery process since transfer agents would have to process each certificate.

The Board also received adverse comments from certain municipal securities brokers and dealers, registered clearing agencies, and other municipal securities professionals. These persons also focused on the additional burdens imposed on the transfer process, and further suggested that the proposed amendment would create other difficulties for municipal securities brokers and dealers (*e.g.*, higher processing costs, greater need for vault space, an increase in the number of interest claims). Certain of these commentators also pointed out that the proposed amendment does not directly address the problem—the possibility of transfer inefficiency. In this regard, they expressed concern that the proposed amendment might in fact operate to delay immediate action to resolve the problem. In the absence of the proposed amendment, these commentators asserted, municipal issuers would be likely to adopt efficient transfer mechanisms more quickly, in large part in response to market forces, since issues on which the transfer arrangements are known to be inefficient are likely to incur higher interest costs than those on which provision has been made for efficient transfer. These persons also stressed, as have most market participants, that adherence to the 72-hour "turnaround" standard by all persons performing transfer agent functions with respect to registered municipal securities would ensure that transfer items are handled efficiently.

The Board has found many of these comments persuasive. The Board is concerned that the increased burdens imposed on issuers, transfer agents, and other market participants may exceed the benefits to be derived from the proposed amendment. Further, the Board notes that the transition to the use of registered securities in the corporate securities markets was accomplished without the adoption of regulations imposing additional restrictions on denomination size. The Board notes also that the use of certain automated clearance techniques may alleviate some of the clearance difficulties caused by the need to obtain alternative denominations.

Although the Board continues to be concerned that the municipal securities industry may experience clearance delays due to the use of larger denomination certificates, particularly during the period immediately following the effective date of the registration provisions of TEFRA, the Board is convinced that rescission of the proposed amendment to require the use of $5,000 denomination certificates on deliveries of registered municipal securities is in the best long term interests of all participants in the municipal securities markets. Accordingly, the Board has withdrawn the amendment from consideration by the Securities and Exchange Commission, and the presently effective provisions of rule G-12(e)(v)(B) will continue to apply to deliveries of registered municipal securities.

April 25, 1983

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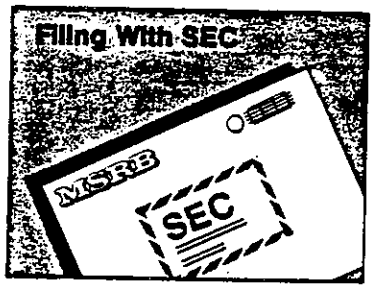

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Rule G-12

Proposed Amendments Filed Regarding Deliveries of Registered Securities

On May 9, 1983 the Municipal Securities Rulemaking Board filed with the Securities and Exchange Commission proposed amendments to certain of the provisions of rule G-12(e)(xiv) regarding deliveries of registered securities. The proposed amendments, which are substantially similar to amendments issued in exposure draft form on December 22, 1982, (1) establish standards concerning the types of registration which are acceptable for delivery purposes, (2) specify that securities with other types of registration, deemed to be securities in "legal form," are not deliverable without agreement at the time of trade, and (3) make technical changes to other provisions regarding registered securities. The text of the amendments follows this notice. The Board has requested that the amendments not become effective for a period of 60 days following Commission approval.

The provisions of the proposed amendments are as follows:

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

- an individual or individuals;
- a nominee;
- a municipal securities broker or municipal securities dealer whose signature is on file with the transfer agent (if the broker or dealer is not a member of a national securities exchange, a statement attesting to the filing of the signature must be placed on the assignment); or
- an individual or individuals acting in a fiduciary capacity (*e.g.*, as an individual executor, trustee, administrator, custodian, etc.) who is specifically named on the certificate.

The Board has modified the version of this provision which was set forth in the December 1982 exposure draft in response to certain of the comments received on the draft. Most significantly, the Board has deleted the proposal, set forth in the December draft, that securities registered in the name of "a member of a registered securities association" (*i.e.*, a member of the National Association of Securities Dealers, Inc.) be considered to be in deliverable form. Although several comments were received in support of this proposal, the Board also received comments from transfer agents, who indicated that, in contrast to members of national securities exchanges, members of the NASD do not, by virtue of that membership, have specimen signatures filed with or otherwise made available to transfer agents. Consequently, these persons indicated, transfer agents generally would not be able to verify that persons who signed assignments of securities registered in the name of an NASD-member firm were authorized to so sign, whereas they would be able to do so in the case of members of a national securities exchange. In view of this fact, the Board recognized that its delivery rules could not deem all deliveries of securities registered in the name of non-exchange-member NASD members, as a class, to be "good delivery."

The Board also recognized, however, that, if an individual non-exchange-member municipal securities dealer has filed specimen signatures with the transfer agent for an issue, the problem of verifying the authorized nature of a signature on an assignment is resolved for securities of that issue, and, therefore, a delivery of securities of that issue registered in the name of this municipal securities dealer should be a "good delivery."[1] Accordingly, the proposed amendments have the effect of making a delivery of securities registered in the name of a non-exchange-member municipal securities dealer not "good delivery" unless the dealer has filed specimen signatures with the transfer agent. The proposed amendments require that, if the dealer has filed signatures with the transfer agent, the dealer must include a statement to this effect on the assignment in order to ensure that any dealer receiving the securities is advised that this requirement has been met.

The Board understands that certain municipal securities brokers and dealers are encouraging the development of a program by the NASD or by one of the registered clearing corporations to make specimen signatures available to transfer

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

[1]This would be true even if the municipal securities dealer was a bank dealer.

agents. The Board would look favorably on the development of such a program, and, if such a program were implemented, the Board would consider an appropriate amendment to this provision.

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

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

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

The Board adopted the proposed amendments due to its concern about the difficulty of completing a transfer of securities with a "corporate name" or other unusual form of registration or assignment execution. In view of the difficulty of transferring securities with "corporate name" or unusual forms of registration or assignment execution, the Board believes that it would not be appropriate to require that a municipal securities broker or dealer accept these types of securities when presented as part of a delivery, unless the broker or dealer agrees to do so at the time of trade.

The Board also believes that the proposed amendments will act to eliminate burdens on the efficiency of the clearance of registered municipal securities since they would greatly reduce the need to ensure that additional documents necessary for transfer purposes have previously been filed with the transfer agent or are provided with the delivery. The Board does not believe that the proposed amendments would impose significant burdens on persons seeking to sell securities with "corporate name" or unusual forms of registration since the current requirements of the rule oblige such persons to file documents with and obtain endorsements from the transfer agent for the securities. Although the proposed amendments would have the effect of requiring that these persons have the securities transferred prior to delivery, this would not appear to require any more time or effort on the part of these persons, in view of the current rule's filing and endorsement requirements.

May 13, 1983

Text of Proposed Amendments*

Rule G-12. Uniform Practice

(a) through (d) No change.

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

(i) through (xiii) No change.

(xiv) Delivery of Registered Securities

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

(B) through (D) No change.

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

(1) an individual or individuals;

(2) a nominee;

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

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

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

(G) and (H) No change.

(xv) and (xvi) No change.

(f) No change.

(g) Rejections and Reclamations

(i) and (ii) No change.

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

(A) and (B) No change.

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

(1) No change.

(2) Refusal to transfer or deregister by the transfer

*Underlining indicates new language; deleted language has been omitted.

agent due to presentation of documentation in connection with the transfer or deregistration which the transfer agent deems inadequate.

(3) No change.

(D) No change.

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

(iv) through (vi) No change.

(h) through (l) No change.

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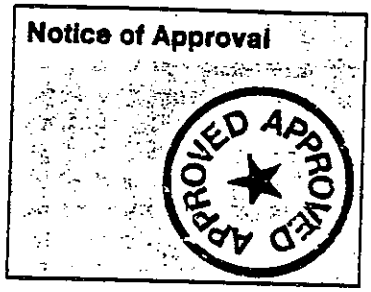
Notice of Approval



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Rule G-34

New Rule on CUSIP Numbers Approved

On May 9, 1983, the Securities and Exchange Commission approved Board rule G-34 on "CUSIP Numbers." Under the provisions of the rule, a municipal securities broker or dealer managing the underwriting of a new issue of municipal securities is required to ensure that application is made for the assignment of CUSIP numbers to the new issue, and that assigned CUSIP numbers are affixed to or imprinted on the certificates of the new issue. The rule becomes effective on July 8, 1983 and applies to all new issue municipal securities eligible for CUSIP number assignment sold on or after that effective date.

The Board adopted the rule because it believes that expanded use of the CUSIP numbering system in the processing and clearance activities of the municipal securities industry will contribute to improving the efficiency of such activities. The Board believes that, if all eligible municipal securities have CUSIP numbers assigned to and printed on them, dealers will be able to place greater reliance on the CUSIP identification of these securities in receiving, delivering, and safekeeping physical municipal instruments. Further, the municipal securities industry's expanded use of the CUSIP system in identifying municipal securities issues will facilitate the adoption of automated technologies for the comparison, settlement, and clearance of transactions in municipal securities. Therefore, the Board concluded that rule G-34 is an important step in improving the efficiency of municipal clearance procedures.

Provisions of the Rule

Eligibility

The requirements of rule G-34 apply to all new issues of municipal securities which are eligible for CUSIP number assignment. The rules governing eligibility currently specify that CUSIP numbers will be assigned to any municipal issue (with the general exception of issues of local assessment bonds or notes of one year or less to maturity[1]) which meets one of the following criteria:

- the issue has a par value of $500,000 or more;
- the issue has a par value of $250,000 or more, and the issuer has outstanding debt in excess of $250,000; or
- the issuer has outstanding debt in excess of $500,000, and a CUSIP subscriber requests assignment of a number to an issue (of any par amount).[2]

Application

Rule G-34 requires that, if no other person has previously arranged for the assignment of CUSIP numbers to a new issue, the managing underwriter of such new issue must make application to an entity designated by the Board (the CUSIP Service Bureau) for assignment of the numbers. The rule provides that such application must be made as promptly as possible, but in no event later than the business day following the date of the award, in the case of a competitive sale, or the business day following the date of signing of a bond purchase agreement, in the case of a negotiated sale. The Board wishes to emphasize that the time limits specified in the rule are "outside" time limits. The rule requires that managing underwriters make application as promptly as possible, and does not permit undue delay in making such application, even though the time limits set in the rule may not have expired.

Rule G-34 also requires that the managing underwriter making application for number assignment provide eight specified items of information about the new issue, to ensure that the CUSIP numbers are correctly assigned. In addition, rule G-34 requires that, at the time of making the application, the managing underwriter must provide to the entity designated by the Board (the CUSIP Service Bureau) a copy of a document prepared by or on behalf of the issuer (*e.g.*, a notice of sale, official statement, legal opinion, or other similar document), or of portions of such document, which evidences the eight items of information specified in the rule. The managing underwriter may provide a document in preliminary form (*e.g.*, a preliminary official statement); if it does so, however, it must subsequently provide a copy of any portions of the final document which reflect any changes to

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

[1] Municipal notes of more than one year to maturity are eligible for assignment of CUSIP numbers.
[2] The Board released on May 2, 1983 a notice soliciting comments on the desirability of making municipal notes and smaller issues eligible for CUSIP number assignment.

the eight items of information made after the preliminary document was prepared. If no document, either in preliminary or final form, is available at the time application for the number assignment is made, the managing underwriter must still submit a written application stating the eight specified items, and must submit a copy of a document, or the relevant portions of such document, at the time such document becomes available. The Board believes that requiring that applications include copies of official documents or portions of official documents describing the issue is important to ensure that CUSIP numbers are assigned on the basis of accurate and complete information about the new issue.

The rule makes clear that, if the managing underwriter is advised by the party assigning the numbers that the issuer or its agent has already made application for the number assignment, a duplicate application need not be made.

Affixture

Rule G-34 requires that the managing underwriter of a new issue affix, or arrange to have affixed, to the certificates of the new issue the CUSIP number assigned to the new issue. If more than one CUSIP number is assigned, each number shall be affixed to the certificates of that portion of the issue to which it relates—for example, on a serial issue the CUSIP number assigned to a particular serial maturity shall be affixed to the certificates of that serial maturity. As a practical matter the Board expects that the numbers will be imprinted on the certificates during the normal certificate-printing process.

Designation of Party to Assign Numbers

The Board has concluded an understanding with the CUSIP Service Bureau relating to the assignment by the Service Bureau of CUSIP numbers to new issues of municipal securities. The Board has received certain assurances from the Service Bureau in writing relating to, among other things, the prompt assignment and public dissemination of newly assigned CUSIP numbers as well as limitations on any increase in the fee charged for the assignment of CUSIP numbers to municipal issues. With respect to the information furnished to the Service Bureau with CUSIP number applications, the Service Bureau has given the Board its assurance that such information will not be used for any purpose other than the assignment of CUSIP numbers. If, at some future date, the Service Bureau wishes to make other use of this information, or to make it available to any other person, the Service Bureau has committed to make the information available to all interested persons at the same time and in the same manner.

The text of the rule follows this notice.

May 12, 1983

Text of Rule

Rule G-34. CUSIP Numbers

(a)(i) Except as otherwise provided in this section (a), each municipal securities broker or municipal securities dealer who acquires, whether as principal or agent, a new issue of municipal securities from the issuer of such securities for the purpose of distributing such new issue shall apply in writing to the Board or its designee for assignment of a CUSIP number or numbers to such new issue. The municipal securities broker or municipal securities dealer shall make such application as promptly as possible, but in no event later than, in the case of competitive sales, the business day following the date of award, or, in the case of negotiated sales, the business day following the date on which the contract to purchase the securities from the issuer is executed. The municipal securities broker or municipal securities dealer shall provide to the Board or its designee the following information:

(A) complete name of issue and series designation, if any;

(B) interest rate(s) and maturity date(s) (provided, however, that, if the interest rate is not established at the time of application, it may be provided at such time as it becomes available);

(C) dated date;

(D) type of issue (*e.g.*, general obligation, limited tax or revenue);

(E) type of revenue, if the issue is a revenue issue;

(F) details of all redemption provisions;

(G) the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to the debt service on all or part of the issue (and, if part of the issue, an indication of which part); and

(H) any distinction(s) in the security or source of payment of the debt service on the issue, and an indication of the part(s) of the issue to which such distinction(s) relate.

(ii) The information required by paragraph (i) of this section shall be provided in accordance with the provisions of this paragraph. At the time application is made the municipal securities broker or municipal securities dealer making such application shall provide to the Board or its designee a copy of a notice of sale, official statement, legal opinion, or other similar documentation prepared by or on behalf of the issuer, or portions of such documentation, reflecting the information required by this section. Such documentation may be submitted in preliminary form if no final documentation is available at the time of application. In such event the final documentation, or the relevant portions of such documentation, reflecting any changes in the information required by this section shall be submitted when such documentation becomes available. If no such documentation, whether in preliminary or final form, is available at the time application for CUSIP number assignment is made, such copy shall be provided promptly after the documentation becomes available.

(iii) The provisions of this section shall not apply with respect to any new issue of municipal securities on which the issuer or a person acting on behalf of the issuer has submitted an application for assignment of a CUSIP number or numbers to such issue to the Board or its designee.

(b) Each municipal securities broker or municipal securities dealer who acquires, whether as principal or agent, a new issue of municipal securities from the issuer of such

securities for the purpose of distributing such new issue shall, prior to the delivery of such securities to any other person, affix to, or arrange to have affixed to, the securities certificates of such new issue the CUSIP number assigned to such new issue. If more than one CUSIP number is assigned to the new issue, each such number shall be affixed to the securities certificates of that part of the issue to which such number relates.

(c) In the event a syndicate or similar account has been formed for the purchase of a new issue of municipal securities, the managing underwriter shall take the actions required under the provisions of this rule.

(d) The provisions of this rule shall not apply to a new issue of municipal securities which does not meet the eligibility criteria for CUSIP number assignment.

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Rule G-12

Comments Requested on Draft Amendment Regarding Acceptance of Partial Deliveries

The Municipal Securities Rulemaking Board is circulating for public comment a draft amendment to the provisions of rule G-12(e)(iv) regarding partial deliveries of municipal securities. The draft amendment, if adopted by the Board, would mandate the acceptance of partial deliveries on inter-dealer transactions. The draft amendment is being circulated for the purpose of eliciting comment prior to further consideration of the proposal by the Board and possible filing with the Securities and Exchange Commission.

Background

Board rule G-12(e)(iv) provides as follows:

> The purchaser shall not be required to accept a partial delivery with respect to a single trade in a single security. For purposes of this paragraph, a "single security" shall mean a security of the same issuer having the same maturity date, coupon rate and price. The provisions of this paragraph shall not apply to deliveries made pursuant to balance orders or other similar instructions issued by a registered clearing agency.

This provision was included in the rule as originally filed with the Commission, and reflects long-standing industry practice.

On several occasions following adoption of the rule the Board has received comments from industry members urging that the rule be amended to require the acceptance of partial deliveries in certain circumstances (*e.g.*, immediately prior to the execution of a close-out notice). On these occasions the Board has concluded that the adoption of such a requirement was an inappropriate response to the particular situations in question since it would place a burden on the receiving dealer that did not seem justifiable in these circumstances. These comments do indicate, however, that certain participants in the municipal securities industry support the adoption of the practice, currently followed with respect to corporate securities, of accepting partial deliveries on inter-dealer transactions.

NSCC Comment

The Board has recently received correspondence from the National Securities Clearing Corporation ("NSCC") requesting that the Board reconsider this provision. NSCC, which provides automated comparison and clearance services for municipal securities transactions, believes that the current provisions of the Board's rule may operate as a disincentive to participation in NSCC's (and other) automated clearance systems.

NSCC indicates that one of the most attractive features offered by such automated clearance systems is transaction "netting," whereby a sequence of inter-dealer transactions in the same securities is reduced by "netting out" the intermediate dealers in the sequence, permitting delivery of the securities directly from the initial selling dealer(s) to the ultimate purchasing dealer(s). For example, if dealer A sells $100,000 par value municipal securities to dealer B, who resells the securities to dealer C, netting of these transactions would "net out" dealer B, and result in a delivery directly from dealer A to dealer C.[1]

In certain cases, however, NSCC advises, the application of netting can result in the ultimate purchaser's receiving two or more "partial deliveries" on its initial transaction. For example, if dealers A and B each sell $50,000 par value securities to dealer C, who subsequently resells the securities as a single lot of $100,000 to dealer D, the application of netting procedures would "net out" dealer C, leaving dealer D expecting two "partial deliveries" on its original transaction of $50,000 par value securities each from dealers A and B. NSCC indicates that the situation illustrated by the example is a frequent result of the use of netting procedures. NSCC points out that, if dealer D has the securities resold to another dealer who is not an NSCC participant, dealer D would not, by virtue of the current provisions of rule G-12(e)(iv), be able to redeliver a "partial delivery" it receives

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

[1]Money settlement is handled by the assignment of a contract value to the delivery obligation (which is paid upon delivery), and settlement of all other moneys due (including moneys due to parties eliminated from the delivery sequence by the netting) on a daily basis with the clearing agency.

on the netted transaction (*e.g.*, if dealer A delivers the $50,000 par value securities it owes on settlement date and dealer B does not).

This disparity in the treatment of partial deliveries, and the increased financing costs NSCC participant dealers may incur as a result of having to carry these "partial deliveries," would, in NSCC's view, discourage participation in automated clearance programs, and the loss of the clearance efficiencies such programs are intended to provide. In the interests of encouraging municipal securities brokers and dealers to use such systems, NSCC urges that the Board remove this disincentive by amending its rule to require the acceptance of partial deliveries.

The Draft Amendment

The Board believes that NSCC's suggestion merits careful consideration. The inability of participant dealers to redeliver securities received on a "partial delivery" resulting from netting does appear to be a significant disincentive to participation in automated clearance systems. The elimination of this disincentive by the adoption of a requirement that purchasing dealers accept partial deliveries would impose certain burdens on such dealers (*e.g.*, the processing costs involved in accepting a partial delivery, possible financing costs if the securities are to be redelivered to a customer, etc.). In spite of such burdens, it may be appropriate to adopt such a requirement, in view of the overall efficiencies the use of automated systems is expected to provide.

The Board is mindful, however, that there may be several considerations which could militate against adoption of a requirement for the acceptance of partial deliveries. In contrast to corporate securities, municipal securities are distinguished by a relative lack of fungibility. A person accepting a partial delivery of corporate securities can generally borrow the securities needed to complete an offsetting delivery obligation relatively easily; this is not true in the municipal securities markets, where it is often impossible to borrow or purchase replacement securities. This factor certainly increases the burden that adoption of such a requirement would impose on purchasing dealers. In cases in which the balance of the securities owed were never delivered, this lack of fungibility might have more troublesome consequences, and may cause a diminution of the value of the securities purchased and previously accepted.[2]

Notwithstanding these considerations, the Board is of the view that it would be appropriate to consider adoption of an amendment requiring acceptance of partial deliveries on inter-dealer transactions in municipal securities. Accordingly, the Board is releasing in this notice a draft of such an amendment: the draft amendment specifies that municipal securities brokers and dealers shall accept partial deliveries on inter-dealer transactions, provided that no dealer will be required to accept a partial delivery of less than $25,000 par value securities.[3] The Board welcomes comment, however, on the issues discussed in this notice from industry members and other interested persons.

The text of the draft amendment follows.

May 2, 1983.

Text of Draft Amendment*

Rule G-12. Uniform Practice

(a) through (d) No change.

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

(i) through (iii) No change.

(iv) Partial Delivery. The purchaser shall be required to accept a partial delivery of securities in the amount of $25,000 par value or more which otherwise meets the requirements of this section (e). The provisions of this paragraph shall not apply to deliveries made pursuant to balance orders or other similar instructions issued by a registered clearing agency.

(v) through (xvi) No change.

(f) through (l) No change.

[2]This result might occur if a portion of the market value of the securities at the time of purchase was attributable to the size of the block being offered. In this situation, a smaller block (such as that which would be delivered in a partial delivery) might have a slightly lower value. The Board notes, however, that the incidence of default on delivery is extremely rare.

[3]This provision is intended to minimize the number of partial deliveries and to prevent the delivery of a multiplicity of small partial deliveries (*e.g.*, $5000 or $10,000 par value lots). The Board would welcome comment on whether $25,000 par value is an appropriate minimum, or whether a larger amount (or a scale of amounts varying by size of the transaction or size of the original issue) should be used.

*New language underscored; deleted language omitted.

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Rule G-34

Comments Requested on CUSIP Number Eligibility Standards

The Municipal Securities Rulemaking Board is circulating for public comment this notice concerning the desirability of expanding the eligibility standards used in connection with the assignment of CUSIP numbers to provide for the inclusion of certain types of securities not presently assigned such numbers in the CUSIP system. The Board is seeking the views of members of the municipal securities industry and other interested persons on the questions discussed herein before determining whether to proceed with certain actions presently under consideration.

On July 23, 1982 the Board filed with the Securities and Exchange Commission proposed rule G-34 on "CUSIP Numbers."[1] The proposed rule would require that the managing underwriters of new issues of municipal securities apply for assignment of CUSIP numbers to such new issues, and furnish certain information, specified in the rule, in connection with such assignment. The proposed rule also requires that the managing underwriter arrange for the imprinting, or the affixture, of the assigned numbers on the certificates of the issue.[2]

Section (d) of the proposed rule specifies that

> [t]he provisions of [the] rule shall not apply to a new issue of municipal securities which does not meet the eligibility criteria for CUSIP number assignment.

Those criteria, established by the Board of Trustees of the CUSIP Agency, currently specify that CUSIP numbers are not assigned to municipal notes of one year or less to maturity. Further, CUSIP numbers are not assigned to issues which do not meet one of the following size criteria:

- the issue has a par value of $500,000 or more;
- the issue has a par value of $250,000 or more, and the issuer has outstanding debt in excess of $250,000; or
- the issuer has outstanding debt in excess of $500,000, and a CUSIP subscriber requests assignment of a number to an issue (of any par amount).

In its consideration of the comments received on an exposure draft of the rule,[3] the Board gave particular attention to the question of issue eligibility. Several of the commentators suggested that municipal note issues should be made eligible for CUSIP number assignment, in view of the significant size and trading volume in the municipal note market.[4] These commentators also noted that assignment of CUSIP numbers to notes would provide the same efficiencies in clearance available for other municipal securities issues, and make municipal note transactions eligible for clearance through automated clearance systems. Other commentators cited these possible clearance efficiencies as a reason to lower the minimum size criterion to permit the inclusion of more small municipal issues in the CUSIP system. In contrast, other commentators suggested that assignment of CUSIP numbers to municipal notes would cause unnecessary expense, or that the minimum size criterion should be increased due to the probable lack of trading activity in such small issues. After consideration of these comments the Board determined to proceed with the proposed rule and address the question of issue eligibility at a later time.

The Board continues to believe that it would be appropriate to have municipal notes and small municipal issues made eligible for CUSIP number assignment.[5] The Board, therefore, solicits comments on this matter from municipal securities brokers and dealers, investors in and issuers of municipal securities, and other interested persons. In particular, the Board seeks comments on the following issues:

Comments concerning the matters discussed in this notice should be sent, not later than July 15, 1983, to the attention of Donald F. Donahue, Deputy Executive Director. Written comments will be available for public inspection.

[1] *See MSRB Reports*, v. 2, n. 1 (August 1982), pp. 7–10; *see also* Commerce Clearing House *Municipal Securities Rulemaking Board Manual*, ¶10,220 at pp. 10,692–95.

[2] Rule G-34 was recently approved by the Securities and Exchange Commission and is scheduled to become effective for issues sold on or after July 8, 1983.

[3] The exposure draft of rule G-34 was released for comment on January 4, 1982. *See MSRB Reports*, v. 2, n. 1 (January 1982), pp. 5–6; CCH *MSRB Manual*, ¶10,201 at pp. 10,667–69.

[4] The *Daily Bond Buyer* indicates that $43.3 billion municipal notes were issued in 1982.

[5] The Board notes that, if the CUSIP eligibility standards were revised to make such securities eligible, the requirements of rule G-34 would be applicable to municipal securities dealers underwriting such securities.

1. Should CUSIP numbers be assigned to issues of municipal notes maturing in one year or less, and/or to small municipal issues (*i.e.*, issues below the current CUSIP size criteria)? If so, should all notes/small issues be made eligible for number assignment, or should alternative maturity/size criteria be used? What alternative criteria would be appropriate, and why?

2. Rule G-34 currently provides that application for number assignment must be made

> as promptly as possible, but in no event later than, in the case of competitive sales, the business day following the date of award or, in the case of negotiated sales, the business day following the date on which the contract to purchase the securities from the issuer is executed.

Are these time frames appropriate if municipal notes or small issues become subject to the rule? If not, what alternative times would be more appropriate? Does the requirement for affixture of the assigned numbers to the certificates present problems?

3. Are there other factors, such as expense, operational or competitive considerations, which are relevant, in favor or in opposition, to the assignment of CUSIP numbers to municipal notes and/or small issues? What are they?

4. Would another system of issuer-assigned securities identification numbers be more appropriate for certain of these types of securities (*e.g.*, project notes)? Are such alternative systems in existence or planned?

In its consideration of the comments received in response to this notice, the Board will seek to determine whether, in its view, the benefits in terms of increased clearance efficiency and more accurate securities identification to be provided by assignment of CUSIP numbers to municipal notes and/or small issues outweigh any perceived disadvantages. If the Board concludes that this is the case, it intends to raise this matter with the CUSIP Board of Trustees, and seek to obtain an amendment of the CUSIP eligibility standards to provide for assignment of numbers to issues of municipal notes and small issues of municipal securities.

May 2, 1983

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Letter of Interpretation

Extraordinary Mandatory Redemption Features

I am writing in response to your letter of February 15, 1983 regarding the confirmation disclosure requirements applicable to municipal securities which are subject to extraordinary mandatory redemption features. In your letter you inquire whether such securities need to be identified as "callable" securities on the confirmation. You also inquire as to the relationship between an extraordinary mandatory redemption feature and a "catastrophe call" feature, and the disclosure requirements applicable to the latter type of provision.

An extraordinary mandatory redemption feature, in my understanding, is a call provision under which an issuer of securities would be obliged to call all or a part of an issue if certain stated unexpected events occur. For example, many of the recent mortgage revenue issues have extraordinary mandatory redemption provisions under which securities would be called if a portion of the proceeds of the issue has not been used to acquire mortgages by a certain stated date, or if moneys received from principal prepayments have not been used to acquire new mortgages by a certain period following receipt of the prepayment. In general, securities which are subject to extraordinary mandatory redemption provisions must be identified as "callable" securities on any confirmation. Extraordinary redemption provisions would not, however, be used for purposes of computing a yield or dollar price.

One specific type of extraordinary mandatory redemption provision is what has been colloquially termed a "catastrophe" or "calamity" call provision. Under this type of provision the issuer of securities would be obliged to call all or part of an issue if the financed project is destroyed or damaged by some catastrophe (*e.g.*, by fire, flood, lightning or other act of God) or if the tax exempt status of the issue is negated. The Board has previously expressed the view that securities which are callable solely under this type of "catastrophe" call provision, and are not otherwise callable, need not be designated as "callable" securities on a confirmation.*

In summary, therefore, securities which are subject to extraordinary mandatory redemption provisions other than "catastrophe" call provisions must be identified as "callable" securities on confirmations.—*MSRB Interpretation of February 18, 1983 by Donald F. Donahue, Deputy Executive Director.*

*See, e.g., November 15, 1977 interpretive letter by Frieda K. Wallison, CCH *Municipal Securities Rulemaking Board Manual*, ¶3571.11 at p. 3567–5B; February 27, 1978 interpretive letter by Dennis C. Hensley, CCH *Manual*, ¶3571.12 at pp. 3567-5B-6.

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Letters of Interpretation

Rules G-12 and G-15—Put Option Bonds

Put Option Confirmation Requirements

This will acknowledge receipt of your letter of March 17, 1981, with respect to "put option" or "tender option" features on certain new issues of municipal securities. In your letter you note that an increasing number of issues with "put option" features are being brought to market, and you inquire concerning the application of the Board's rules to these securities. Your letter was reviewed by a Committee of the Board which has been charged with responsibility for interpreting certain of the Board's rules; the Committee authorized my sending you this letter in response.

The issues of this type with which we are familiar have a "put option" or "tender option" feature permitting the holder of securities of an issue to sell the securities back to the trustee of the issue at par. The "put" or "tender option" privilege normally becomes available a stated number of years (*e.g.*, six years) after issuance, and is available on stated dates thereafter (*e.g.*, once annually, on an interest payment date). The holder of the securities must usually give several months prior notice to the trustee of his intention to exercise the "put option."

Most Board rules will, of course, apply to "put option" issues as they would to any other municipal security. As you recognize in your letter, the only requirements raising interpretive questions appear to be the requirements of rules G-12 and G-15 concerning confirmations. These present two interpretive issues: (1) does the existence of the "put option" have to be disclosed and if so, how, and (2) should the "put option" be used in the computation of yield and dollar price.

Both rules require confirmations to set forth a

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

Confirmations of transactions in "put option" securities would therefore have to indicate the existence of the "put option," much as confirmations concerning callable securities must indicate the existence of the call feature. The confirmation need not set forth the specific details of the "put option" feature.

The requirements of the rules differ with respect to disclosure of yields and dollar prices. Rule G-12, which governs inter-dealer confirmations, requires such confirmations to set forth the

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

Rule G-15 requires customer confirmations to contain yield and dollar price as follows:

> (A) for transactions effected on a yield basis, the yield at which transaction was effected and the resulting dollar price shall be shown. Such dollar price shall be calculated to the lowest of price to premium call, price to par option, or price to maturity. In cases in which the dollar price is calculated to premium call or par option, this must be stated, and the call or option date and price used in the calculation must be shown.
>
> (B) for transactions effected on the basis of dollar price, the dollar price at which transaction was effected, and the lowest of the resulting yield to premium call, yield to par option, or yield to maturity shall be shown; provided, however, that yield information for transactions in callable securities effected at a dollar price in excess of par, other than transactions in securities which have been called or prerefunded, is not required to be shown until October 1, 1981.
>
> (C) for transactions at par, the dollar price shall be shown . . . .

Therefore, with respect to transactions in "put option" securities effected on the basis of dollar price, rule G-12 requires that confirmations simply set forth the dollar price. Rule G-15 requires that confirmations of such transactions set forth the dollar price and the yield to maturity resulting from such dollar price. With respect to transactions effected on the basis of yield, both rules require that the confirmations set forth the yield at which the transaction was effected and the resulting dollar price. Unless the parties otherwise agree, the yield should be computed to the maturity date when deriving the dollar price. If the parties explicitly agree that the transaction is effected at a yield to the "put option" date, then such yield may be shown on the confirmation, together

with a statement that it is a "yield to the [date] put option," and an indication of the date the option first becomes available to the holder.

Since the exercise of the "put option" is at the discretion of the holder of the securities, and not, as in the case of a call feature, at the discretion of someone other than the holder, the Board concludes that the presentation of a yield to maturity on the confirmation, and the computation of yield prices to the maturity date, is appropriate, and accords with the goal of advising the purchaser of the minimum assured yield on the transaction. The Board further believes that the ability of the two parties to a transaction to agree to price the transaction to the "put option" date, should they so desire, provides sufficient additional flexibility in applying the rules to transactions in "put option" securities.—*MSRB interpretation of April 24, 1981 by Donald F. Donahue, Deputy Executive Director.*

Further Clarification of Put Option Confirmation

This will acknowledge receipt of your letter of May 6, 1981, requesting further clarification of the application of Board rules to municipal securities with "put option" or "tender option" features. In your letter you note that I had previously indicated that, in some circumstances, Board rules would require inter-dealer and customer confirmations to set forth a yield to the "put option" date, designated as such. You suggest that presentation of this information on confirmations would require reprogramming of many computerized confirmation-processing systems, and you inquire whether the Board intends that

> dealers should possess the capability to "price to the put" and [to] indicate the appropriate yield in their confirmation systems[.]

In my previous letter of April 24, 1981 I advised that Board rules G-12(c), on inter-dealer confirmations, and G-15, on customer confirmations, would require the following with respect to transactions in securities with "put option" features:

(1) If the transaction is effected on the basis of a yield price, the confirmation must state the yield at which the transaction was effected and the resulting dollar price. The dollar price must be computed to the maturity date, since, in most instances, these securities will not have call features. If the securities do have a refunding call feature, the requirement for pricing to the lowest of the premium call, par option, or maturity would obtain.

(2) If the transaction is effected on the basis of a dollar price, the confirmation must state the dollar price, and, in the case of a customer confirmation, the resulting yield to maturity. If the securities have a call feature, the customer confirmation would state the yield to premium call or the yield to par option in lieu of the yield to maturity, if either is lower than the yield to maturity.

In neither case does the rule require the presentation of a yield or a dollar price computed to the "put option" date as a part of the standard confirmation processing. Further, the Board does not at this time plan to adopt any requirement for a calculation of yield or dollar price to the lower of the put option or maturity dates, comparable to the calculation requirement involving call features. I would therefore have to respond to your inquiry by stating that the Board does not at this time intend to require, as an aspect of standard confirmation processing, that dealers have the capability to "price to the put."

In your May 6 letter you quote a paragraph from my previous correspondence, which stated the following:

> If the parties explicitly agree that the transaction is effected at a yield to the "put option" date, then such yield may be shown on the confirmation, together with a statement that it is a yield to the (date) put option, and an indication of the date the option first becomes available to the holder.

As this paragraph indicates, in some circumstances the parties to a particular transaction may agree between themselves that the transaction is effected on the basis of a yield to the "put option" date, and that the dollar price will be computed in that fashion. In such circumstances, the yield to the "put option" date is the "yield at which [the] transaction was effected" and must be disclosed as such; it must also be identified in order to evidence the agreement of the parties that the transaction is priced in this fashion. However, since the sale of securities on the basis of a yield to the "put option" is at the discretion of the parties to the transaction, and is a special circumstance requiring a mutual agreement of such parties, I suggest that the reprogramming you mention would be necessary only if your bank elects to treat securities with "put option" features in this special fashion. Further, given the fact that these would be exceptional transactions, and would require special handling at the time of trade itself (*viz.*, the conclusion of the mutual agreement concerning the pricing), I suggest that manual processing of these transactions on an "exception" basis appears to be a viable alternative to the reprogramming.—*MSRB interpretation of May 11, 1981 by Donald F. Donahue, Deputy Executive Director.*

Additional Interpretation of Put Option Confirmation Disclosure Requirements

I am writing in response to your recent letter regarding issues of municipal securities with put option or tender option features, under which a holder of the securities may put the securities back to the issuer or an agent of the issuer at par on certain stated dates. In your letter you inquire generally as to the confirmation disclosure requirements applicable to such securities. You also raise several questions regarding a dealer's obligation to advise customers of the existence of the put option provision at times other than the time of sale of the securities to the customer.

Your letter was referred to a committee of the Board which has responsibility for interpreting the Board's confirmation rules, among other matters. That committee has authorized my sending you the following response.

Both rules G-12(c) and G-15, applicable to inter-dealer and customer confirmations respectively, require that confirmations of transactions in securities which are subject to put option or tender option features must indicate that fact (*e.g.*, through inclusion of the designation "puttable" on the confirmation). The date on which the put option feature first comes into effect need be stated on the confirmation only if the transaction is effected on a yield basis and the parties to the transaction specifically agree that the transaction dol-

lar price should be computed to that date. In the absence of such an agreement, the put date need not be stated on the confirmation, and any yield disclosed should be a yield to maturity.

Of course, municipal securities brokers and dealers selling to customers securities with put option or tender option features are obligated to disclose adequately the special characteristics of these securities at the time of trade. The customer therefore should be advised of information about the put option or tender option feature at this time.

In your letter you inquire whether a dealer who had previously sold securities with a put option or tender option feature to a customer would be obliged to contact that customer around the time the put option comes into effect to remind the customer that the put option is available. You also ask whether such an obligation would exist if the dealer held the securities in safekeeping for the customer. The committee can respond, of course, only in terms of the requirements of Board rules; the committee noted that no Board rule would impose such an obligation on the dealer.

In your letter you also ask whether a dealer who purchased from a customer securities with a put option or tender option feature at the time of the put option exercise date at a price significantly below the put exercise price would be in violation of any Board rules. The committee believes that such a dealer might well be deemed to be in violation of Board rules G-17 on fair dealing and G-30 on prices and commissions.—*MSRB interpretation of February 18, 1983 by Donald F. Donahue, Deputy Executive Director.*

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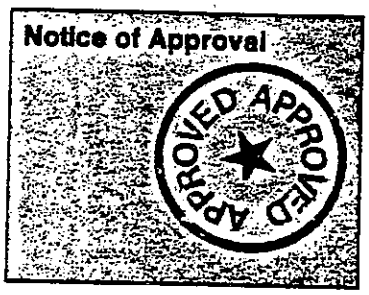

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- ☐ Manager, Muni. Dept.
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Rule G-12

Amendment Approved Concerning Confirmations with CUSIP Number Discrepancies

The Securities and Exchange Commission has approved an amendment to rule G-12(d) concerning the comparison and verification of inter-dealer confirmations containing CUSIP number discrepancies. The text of the amendment follows this notice.

Board rule G-12(d) requires municipal securities brokers and dealers to compare inter-dealer confirmations of transactions, to follow certain specified procedures to resolve any discrepancies discovered in the course of such comparison, and to issue confirmations correcting such discrepancies. Paragraph (d)(ix) of the rule previously provided that in the event that a comparison of inter-dealer confirmations revealed a discrepancy limited solely to the CUSIP numbers on the confirmations, the parties to the transaction were required to take steps to resolve the discrepancy, but were not required to issue a corrected confirmation, showing the correct CUSIP number, upon resolution of the discrepancy.

The amendment to rule G-12 approved by the Commission deletes paragraph (d)(ix), and thereby amends the rule to require that municipal securities brokers and dealers comparing confirmations showing CUSIP number discrepancies follow the same procedures, including the preparation and mailing of corrected confirmations, as they would to resolve any other type of discrepancy.

In proposing this amendment, the Board noted that the CUSIP number designation on the confirmation of a transaction has become a key component of the identification of the securities involved in the transaction, particularly as more municipal securities transactions are compared and cleared by means of automated systems. In light of the growing significance of the CUSIP number identification, the Board believes that it is important that the parties to a transaction agree on the CUSIP number, and that this number be reflected accurately on the confirmations exchanged by the parties.

The text of the amendment follows.

April 29, 1983

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

Text of Amendment*

Rule G-12. Uniform Practice

(a) through (c) No change.

(d) Comparison and Verification of Confirmations; Unrecognized Transactions.

(i) through (viii) No change.

(ix) ~~The provisions of this section (d) shall not apply to any discrepancy in compared confirmations relating solely to the CUSIP number requirement of subparagraph F of paragraph (c)(v). In the event either party discovers such a discrepancy, such party shall promptly communicate such discrepancy to the contra party and both parties shall promptly resolve the discrepancy.~~

(e) through (l) No change.

*Material which is lined through has been deleted.

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Notice of Approval

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Rule G-12

Amendment Approved Concerning Note Denominations

The Securities and Exchange Commission has approved a rule change to rule G-12(e)(v), concerning deliveries of tax-exempt notes, to permit deliveries of notes in denominations smaller than those specified on the confirmation of the transaction if the notes delivered can be aggregated to constitute the denominations specified.

Prior to approval of the amendment, the rule had required that all deliveries of tax-exempt notes be made in denominations specified as sold on the confirmation pursuant to rule G-12(c)(vi). Under the new rule, for example, if a confirmation for 50 notes specifies that the delivery will be "2 × 25," the denominations delivered must permit the dealer to redeliver two lots of 25. The Board understands that the rule amendment codifies a widespread practice of the note industry to accept deliveries of smaller denominations and believes that the amendment will avoid unnecessary rejections of technically non-conforming deliveries of notes.

The text of the rule amendment follows.

April 28, 1983

Questions or comments concerning the rule change should be directed to Angela Desmond, Deputy General Counsel.

Text of Amendment*

Rule G-12. Uniform Practice

(a) through (d) No change.

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

(i) through (iv) No change.

(v) Units of Delivery. Delivery of bonds shall be made in the following denominations:

(A) for bearer bonds, in denominations of $1,000 or $5,000 par value; and

(B) for registered bonds, in denominations which are multiples of $1,000 par value, up to $100,000 par value.

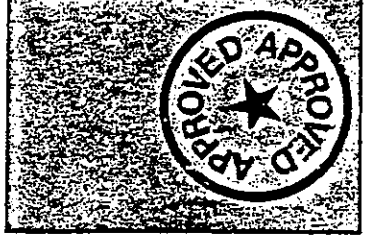
Delivery of other municipal securities shall be made in the denominations specified on the confirmation as required pursuant to paragraph (c)(vi) of this rule except that deliveries of notes may be made in denominations smaller than those specified if the notes delivered can be aggregated to constitute the denominations specified.

(vi) through (xvi) No change.

(f) through (l) No change.

*Underlining indicates new language.

Notice of Approval



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Rule G-15

Amendment Approved Requiring CUSIP Numbers on Customer Confirmations

On May 9, 1983 the Securities and Exchange Commission approved an amendment to Board rule G-15 concerning the inclusion of CUSIP numbers on confirmations sent to customers. The amendment requires that the customer confirmation set forth the "CUSIP number, if any, assigned to the securities" involved in the transaction. The Board adopted the amendment due to its belief that the inclusion of a CUSIP number on the customer confirmation would ensure the accurate identification of the issue of securities involved in the transaction and facilitate the use of automated confirmation and clearance systems in connection with such transaction.

At the Board's request the Commission delayed the effectiveness of the amendment for a period of 120 days following its approval. The amendment therefore becomes effective on September 6, 1983, and all confirmations sent to customers on or after that date must set forth the applicable CUSIP number.

May 12, 1983

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

Text of Amendment*

Rule G-15. Customer Confirmations

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

(i) through (v) No change.

(vi) CUSIP number, if any assigned to the securities;

(vi) through (xiii) renumbered as (vii) through (xiv). No substantive change.

(b) through (i) No change.

*Underlining indicates new language.