

Test Reference Guide

for the

**Municipal Securities Representative
Examination
(Series 52)**

September 2006

INTRODUCTION

The MSRB developed this *Test Reference Guide* for candidates preparing for the Municipal Securities Representative Qualification Examination (Test Series 52)¹, and for candidates preparing for the municipal securities portion of the General Securities Representative Examination (Test Series 7), which also qualifies an individual as a municipal securities representative. The *Guide* is not didactic; rather, it is intended to assist a candidate in focusing his or her study on specific knowledge that is required for the job of a municipal securities representative by providing learning objectives, terms, and concepts associated with major topics on the content outline. The *Guide* is structured using the same major topic divisions as the outline for the Series 52 Examination, and should be used as a companion to the study outline. Under each major topic heading, the *Guide* describes information that is required to pass the examination and to function competently as a municipal securities representative, and lists additional terms and/or concepts associated with each topic.

The topics covered on the content outline, and in the *Guide*, are: Municipal Securities; U.S. Government, Federal Agencies and Other Financial Instruments; Economic Activity, Government Policy, and Factors Affecting Interest Rates; and, Federal Legal Considerations.

The objective statements and topics provided in the *Guide* are not intended to be exhaustive, nor are they intended to represent the sum of the subject matter that is covered on the examination. Candidates preparing for the examination should bear in mind that the examination is updated regularly in order to test new MSRB rules or rule amendments, and to reflect current market practices and securities.

¹ The outline for the Series 52 Examination is available on the MSRB web site (www.msrb.org).

Major objectives are set forth under each primary topic area. Specific job knowledge areas are detailed under appropriate topics. These are not intended to be all-inclusive. Brief explanations of topics are provided in limited areas to provide clarity.

Part One

MUNICIPAL SECURITIES

TYPES OF MUNICIPAL SECURITIES - GENERAL OBLIGATION, REVENUE, SPECIAL TYPES

- Define and/or describe various types of municipal securities and understand basic characteristics for each.
- Understand how characteristics, terms and concepts listed apply to analysis of bonds.
- Know different purposes for, types of various securities, where applicable.
- Compare and/or contrast types of securities based on their characteristics, reasons for issuance and trading properties.
- Demonstrate understanding of the factors that impose limitations on the issuance of GO and revenue securities.
- Understand the reasons for issuing GO and revenue bonds.
- Understand type of security (backing) associated with various types of securities.
- Define terms associated with various types of securities, and understand applicability of each.
- Perform calculations associated with various types of securities as appropriate.
- Determine suitability of different types of bonds for certain investors.

General obligation bonds

- Understand what characteristics are considered as factors in the analysis of municipal credit for GO debt (See also “Analyzing Municipal Credit”).
- Know the types of revenue used to pay GO debt.
- Understand the meaning and significance of bond ratings.
- Understand the use and effect of bond insurance.
- Determine existence of insurance on a bond by the use of ratings.
- Compare credit on GO bonds, insured bonds, and noninsured bonds.
- Understand the effect of lack of debt service reserves.
- Know the source of interest payments for GO debt.
- Compare GO bonds and revenue bonds; state and local GOs; rated and unrated GOs; letter of credit (LOC), credit and insurance.
- Understand what factors support/hinder the issuance of GO bonds.
- Know when voter approval is required to issue debt.
- Know what options exist when the municipality exceeds limitations for debt.
- Know how an issuer obtains access to the market (GO vs. revenue issues).

TYPES OF MUNICIPAL SECURITIES - GENERAL OBLIGATION BONDS (cont'd)

Revenues: ad valorem (local or real property tax), income tax, sales tax, gasoline tax, any state revenues

Millage

Quality (strength of credit backing): overlapping debt (bonded debt)

Types (e.g., limited tax; rated, unrated)

Debt ceiling of the municipality; referendum on ballot; statutory debt ceiling; alternative financing; maximum allowable debt; moral obligation; taxable municipal bonds; certificates of participation (COPs); special assessments

Revenue bonds

- Know the characteristics of revenue bonds, including characteristics of specific types of revenue bonds.
- Know the appropriate uses for various types of revenue bonds.
- Know how revenue bonds are secured.
- Know the source of payment for revenue bonds.
- Know what types of projects are financed by revenue bonds.
- Determine the borrowing cost by description of the bond.
- Understand the limitations on issuance for a revenue bond.
- Know what entities can/cannot issue tax-exempt bonds.
- Identify what bonds are subject to an additional bonds test (by description of bond).
- Identify what bonds are subject to statutory debt limitations (by description of bond).
- Know the purpose of a feasibility study, and when it is required.
- Explain the reasons, purposes for issuing revenue bonds vs. GO bonds.
- Define covenant; understand what is NOT a covenant.
- Know what type of issues are generally AMT bonds.
- Know how variable rate securities work.

Project revenues; user fees; debt service coverage; additional bonds test; feasibility study; unfunded benefit liabilities; taxable municipals—private activity bonds; low floaters; senior/junior lien; renewal and replacement fund; debt service reserve fund; conduit issuers

Covenants—rate covenant, negative covenant; 501C-3(not for profit) organizations

***Utility revenue** (e.g., water, sewer, electric)—safety; use of feasibility study; coverage of debt service requirements; meaning, importance of rate covenants, debt service requirements*

***Housing revenue** (e.g., single-family; multi-family) — collateralization; effect of call features; order of retiring bonds: “super sinker,” meaning and function; planned amortization class (PAC); lockouts on calls*

***Transportation** (e.g., airport revenue, toll road)—compare/contrast highway revenue and toll road; airport bonds—AMT (private purpose bonds) and non-AMT issues; passenger facility charges (back-up pledge)*

TYPES OF MUNICIPAL SECURITIES - REVENUE BONDS (cont'd)

Education (e.g., dormitory, student loan, general revenue)—source of revenue; secondary market: what bond proceeds used to buy student loans; low floaters; any time partial call

Health (e.g., hospital, life care) — comparison: government hospital district vs. 501C-3 not for profit assisted living facilities; Continuing Care Retirement Centers (CCRCs)

Industrial (e.g., industrial development, pollution control)—security; comparison: taxable and tax-exempt; limitations on size; AMT

Special tax—Designated tax (gas, sales, etc.)—ad valorem

Special type bonds

- Describe various special type bonds and understand characteristics of each.
- Know what type of security exists for each type of bond.
- Know the advantages/disadvantages for various types of issues.
- Know reasons for issuing and/or use of various types of securities.
- Identify terms associated with the issuance of various types of securities, and understand the role of each.
- Understand purpose for, use of various bond documents.
- Know what is contained in the official statement.
- Know when the official statement is produced (at what stage in the underwriting cycle).
- Know the use for, and contents of, the Notice of Sale.
- Know how to calculate the bond years of an issue, and know the use for the calculation (what type of issue).

Special assessment—specially benefited users

Moral obligation—primary and secondary sources for payment

Double barreled—type of support (ad valorem taxes and project revenues)

Lease rental—Comparison: lease rental vs. lease revenue bonds; advantages/disadvantages of lease-backed financing (use of certificate of participation)

Certificates of participation (COPs)—Moral obligation (identify by bond description); annual appropriations (principal and interest)

Variable rate securities—Market value at interest rate adjustment time; effect of put options on variable rate demand obligations (VRDOs); effect of exercising put; settlement of puts; floating rate notes
Letter of credit; caps; floors; collars; swaps; remarketing agent; liquidity provider; reciprocal immunity doctrine

TYPES OF MUNICIPAL SECURITIES - SPECIAL TYPE BONDS (cont'd)

***Taxable municipals**—Pension, legal issues associated with taxable bonds, effect of time of issue, effect of credit ratings*

Comparison of yields—taxable municipals to: GO bonds, revenue bonds, tax-exempt commercial paper

Definition of nominal yield; Calculation of after-tax yield; Determination of tax status; Alternative minimum tax

***Municipal fund securities**—authority to issue; account ownership issues; annual gift tax exclusion; types (Section 529 college savings plans, LGIPs); books and records (customer reporting); licensing requirements/testing; suitability; federal and state tax issues; 529-specific advertising requirements; state disclosure issues*

Auction rate securities

Bond documents

- Know what is contained in the Notice of Sale.
- Understand the use and effect of the Notice of Sale in soliciting bids (binding document for bidder).
- Understand difference between Notice of Sale and official statement.
- Know what information is contained in the official statement.
- Know when the official statement is printed (at what stage in the cycle).
- Know the purpose and how to calculate bond years.
- Know when calculation of bond years is used (for what type of sale).

Notice of Sale; official statement; bond years; average life; duration; debt outstanding; minimum bid

Short-term obligations

- Define short-term obligation.
- Compare and/or contrast characteristics of notes and bonds.
- Understand characteristics of various types of notes (*e.g.*, source of payment, liquidity, security, purpose).
- Demonstrate understanding of characteristics common to various types of notes (*e.g.*, normally issued at discount).
- Know reasons for issuing various types of notes, and the authority that issues notes.
- Demonstrate understanding of compounding of notes as compared to other municipal securities.
- Understand the effect of a put option, and to whom should bonds be put.
- Know the result of a put on a tender option.
- Understand the terms of the lower floater bond structure.

TYPES OF MUNICIPAL SECURITIES; SHORT-TERM OBLIGATIONS (cont'd)

Municipal note; discounted notes; tax anticipation notes (TANs); future tax revenues; compounding; current and annual coupons; accretion; bond anticipation notes (BANs); revenue anticipation notes (RANs); construction loan notes (CLNs); variable rate demand notes; multi-modal; grant anticipation notes (GANs); tax and revenue anticipation notes (TRANs); tax-exempt commercial paper

BASIC CHARACTERISTICS

- Define various terms associated with characteristics of securities.
- Understand nature of relationship between price and yield.
- Understand advantages/disadvantages of redemption of bonds to issuer and investor.

Method of quotations

Yield/basis price; priced to the call; resulting yield to maturity; yield to maturity; dollar price; discount; premium

Forms of ownership

Bearer; registered as to principal only; fully registered: interchangeable with bearer; non-interchangeable; book-entry only (held at DTCC)

Delivery procedures

- Demonstrate understanding of the following procedures for delivery of securities: settlement for various types of securities (including government securities and commercial paper); uniform requirements for good delivery of municipal securities; circumstances in which various types of delivery procedures are used; differences between types of interest rates used on various securities; procedures for early redemption of bonds; methods of refunding bonds; methods of pricing.
- Define types of delivery (*i.e.*, cash, delayed delivery, regular way, when issued, etc.).
- Know conditions for delayed delivery.
- Understand requirements for securities with delayed delivery, including circumstances allowing delayed delivery, interest accrual, circumstances for callable bonds (not refundable), etc.
- Understand the requirements for WI transactions (including preliminary confirmation and final confirmation).
- Understand the basic provisions of MSRB Rule G-34 on CUSIP numbers and new issue requirements.

Cash; regular way; delayed delivery (also extended delivery, forward delivery); first call date, "mutually agreed upon"; when, as and if issued (WI); written award

BASIC CHARACTERISTICS – LEGAL OPINION

Legal opinion/qualified legal opinion

- Know the purpose and contents of a legal opinion.
- Understand the benefit of the legal opinion.
- Know where the opinion is presented.

Verification or test of tax exemption (whether exempt from state taxes); alternative minimum tax (AMT); legal obligation of issuer; qualified legal opinion; official statement

Interest rates and interest payment periods

- Define methods of payment of interest and know when interest payments are made for each method.
- Distinguish CABs from zeroes from the issuer's point of view.
- Demonstrate ability to calculate accrued interest payments.

Fixed rate; variable/floating rate; capital appreciation bonds (zeroes); convertible; statutory debt ceiling limitations; 30/360

Maturity

- Know maturities offered for municipal securities.
- Understand characteristics of each type.
- Know how serial bonds are quoted.
- Understand how issuing serial bonds benefits issuer.
- Compare maturities for callable and non-callable securities.
- Compare sinking fund vs. non-sinking fund securities.

Term; dollar bonds; callable; non-callable; sinking fund; serial; yield; amortization of premium

Denominations

- Know the number of bonds that comprise the standard unit of sale.
- Know what denominations constitute good delivery.

Minimum denominations (G-17)

Early redemption

- Define and demonstrate understanding of the types of early redemption (provisions, protections for issuer, which method used with what type of security, reasons for early redemption, etc.).
- Define and compare: refunded bond and refunding bond.
- Compare and contrast current refunding and advance refunding.

BASIC CHARACTERISTICS - EARLY REDEMPTION (cont'd)

Types

Optional; sinking fund; mandatory redemption; super sinker; gross revenue pledge; net revenue pledge; extraordinary; catastrophe; extraordinary optional; extraordinary mandatory; condemnation; change in tax status; taxability fund
Mandatory (normally associated with puts)

Bond refunding methods

Refundings (current); refunding bond; refunded bond; restrictive covenant; escrow; possible insider information regarding refunded bond; advance refunding (pre-refunding); current refunding; escrowed to maturity (ETM); types of backing (e.g., GNMA, FNMA; not necessarily backed by governments); crossover refundings

Procedures

- Define procedures for early redemption; understand what procedures effected at whose option (bondholder vs. issuer).
- Explain advantages to issuer; disadvantages to investor.

Tender; call (See: Types of Early Redemption); puts; mandatory put; variable rate; open-market purchase

Tax considerations

- Determine the characteristics of a tax-exempt taxable bond by types and description.
- Compute amounts of sale subject to federal tax.
- Know the different types of taxable events.
- Demonstrate ability to determine yield, after-tax yield, and taxable equivalent yield for various transactions.
- Understand basic provisions for the Alternative Minimum Tax—application of, bonds subject to, and comparison of yields to non-AMT bonds; tax preference items.
- Define bank qualified bonds, and know their characteristics.
- Demonstrate understanding of suitability for all types of bonds.

State and local income tax status: taxable equivalent yield, exemption of interest income, capital gains, tax consequences of sale, original issue discount (O.I.D) vs. market discount, compound accreted value (CAV)

Factors affecting marketability and liquidity

- Understand the effects of current price levels vs. moving average.
- Understand the effect of credit quality on marketability and liquidity.
- Know the types of ratings for a bond, their meanings, and the effect of the rating of a bond on its marketability.
- Understand how factors such as issuance of other bonds, population growth, inflation, and housing starts can effect changes in price on certain types of securities.
- Know resources available for obtaining bond information.

BASIC CHARACTERISTICS - FACTORS AFFECTING MARKETABILITY AND LIQUIDITY (cont'd)

Minimum denominations; defaulted securities; supply and demand; credit and liquidity support; The Bond Market Association; www.investinginbonds.com

THE MARKET FOR MUNICIPAL SECURITIES

Primary Market

- Identify the methods of primary financing, and understand the characteristics of each.
- Know what sources are used to disseminate information on the primary market for municipal securities.
- Demonstrate basic understanding of the rules governing the formation and administration of syndicates.
- Understand the individual roles of the participants in a syndicate (manager, co-manager, selling group).
- Know the definition and purpose of a syndicate letter.
- Know the components of a syndicate bid, and how it is computed.
- Understand what factors are relevant to the members' participation in the bid.
- Understand the priority provisions accorded various types of orders.
- Understand the settlement terms for new issue securities.
- Understand the functions of a bond attorney.
- Understand the role of a financial advisor in bringing a new issue to market.

Methods of primary financing: competitive sale; negotiated sale; public offering; private placement

Notice of Sale; official statement (preliminary and final); Dalnet; Bond Buyer; trade publications (print and electronic)

Agreement among underwriters (AAU); underwriting account agreement; selling group; syndicate; syndicate letter; undivided account

Scale; spread; interest rates; production; split coupon; swing coupon; bid price; bid form; net interest cost; true interest cost

*Order period; pre-sale orders; determination of liability; concession; take-down; retention bonds; group; group net; net designated; member; when, as-and-if-issued
Legal opinion*

Secondary Market

- Understand the characteristics of the secondary market for municipal securities.
- Know the sources that provide information on the secondary market.
- Know the participants in the secondary market (e.g., institutional, retail, inter-dealer).
- Understand secondary market procedures (e.g., types of transactions, trading terms, etc.).
- Define terms used in trading municipal securities.
- Understand the functions of a municipal bond trader.

THE MARKET FOR MUNICIPAL SECURITIES – SECONDARY MARKET (cont'd)

- Understand requirements for disclosure of material events in the secondary market.

Brokers' brokers; negotiated; auction; over-the-counter (OTC), established industry sources, Nationally Recognized Municipal Securities Information Repository (NRMSIR); SEC Rule 15c2-12

Quote; firm bid; firm offering; list; down bid; workable indications; evaluation; "multiples of;" "out firm;" "fill-or-kill" vs. all-or-none (AON) order; "locked market"

Position trading; hedging

Market indicators

- Know the components of the major indices and the significance of, and use of each in the municipal market.

The Bond Buyer: Placement Ratio; indices—Twenty GO Bonds Index; Eleven GO Bonds Index; Twenty-five Revenue Bonds Index (Revdex); Municipal Bond Index (40 Bond), Bond Market Association (BMA) Index, Municipal Market Data (MMD) Index Visible supply; new-issue scales; dollar bond market activity; financial futures

Customer suitability considerations

- Demonstrate knowledge of suitability requirements when providing investment advice on municipal securities.
- Understand what securities are appropriate to satisfy the various investment objectives of different types of customers.
- Define kinds of investment risks and identify their applicability to various types of investments.

Investment objectives: Safety of principal (Preservation of Capital); income; liquidity; growth; speculation; time horizon; age; risk tolerance; purpose of investment (529 college savings plans, retirement, etc)

Diversification: Geographical; maturity; security; quality; market sectors

Kinds of investment risks: credit risk; market (interest rate risk); liquidity risk; put and call features; inflationary; reinvestment; political risk (tax law changes, etc.)

ANALYZING MUNICIPAL CREDIT

- Understand which factors are considered as positive/negative trends in the analysis of debt.
- Understand the roles of these factors in the analysis of debt.
- Know which factors are most/least important in analyzing debt.
- Know what factors an underwriter considers when bidding on an issue.
- Know the use of a feasibility study, and what information such a study details.
- Know how the feasibility study, sources of revenue and security for an issue are used in the analysis of revenue bonds.

ANALYZING MUNICIPAL CREDIT (cont'd)

- Know the sources that exist that can provide credit information on an issue of bonds.
- Understand the function of the rating agencies, and the significance of various rating classifications.
- Understand the purpose of credit enhancement, and what means exist to provide additional security in a bond financing.
- Understand liquidity (self liquidity vs. liquidity facilities).

General obligation securities

Demographic considerations—tax base; geography; population trends; diversification of economic activity

Nature of the issuer's debt—debt trend; past and present attitudes toward debt; schedule of debt service requirements; contemplated financing; relation of debt to the life of improvement

Factors affecting ability to pay—budgetary practices; legislative climate; current financial condition; unfunded liabilities; tax limitations; tax rates, trends and comparisons; tax collection record; trends in assessed valuation; non-tax revenues; overlapping debt; litigation

Municipal debt ratios—net overall (direct and overlapping) debt to assessed valuation; net overall (direct and overlapping) debt to estimated real valuation; per capita net debt; debt service to annual revenues

Revenue bonds

Feasibility study; user charges; concessions and fees; lease payments; legislative appropriation

Bond indenture; rate covenant; insurance covenant; operation and maintenance covenant; non-discrimination covenant; open-end indenture; closed-end indenture

Flow of funds: revenue fund; operation and maintenance fund; sinking fund or debt service fund; debt service reserve fund; reserve maintenance fund; renewal and replacement (depreciation) fund; surplus fund; construction fund

Net revenue pledge; gross revenue pledge; debt service coverage

Credit enhancements

Letters of credit (LOC); insured; legal defeasance (escrowed to maturity, pre-refunded; advance refunded); bond insurers

ANALYZING MUNICIPAL CREDIT - MATHEMATICAL CALCULATIONS AND METHODS

Mathematical Calculations and Methods

- Understand how purchase price of a bond affects current yield.
- Determine yield to maturity from description of bond and purchase price.
- Understand what factors affect yield to maturity (*e.g.*, pricing to the call, use of put option, slope of the yield curve, reinvestment of coupon payments, etc.).
- Know the formulae for computing current yield and taxable equivalent yield.
- Know how capital gains affect yield.
- Know how to determine the yield for a taxable municipal bond.
- Understand the relationship of various yield curves to term bonds.
- Determine how bonds are priced from information given.
- Know how to calculate the dollar price of a municipal bond (what factors should be considered).
- Understand how the exercise of a call option affects investor's return.
- Understand the relationship of bond prices to changes in maturity, coupon, and yield.
- Understand what is meant by the dollar value of a basis point, and determine how market movements in basis points affect the dollar price of bonds.
- Know the dollar value of points and fractions.
- Understand the concept of convexity, and what factors influence convexity.
- Understand the concept of duration, and its relevance to an investor in municipal bonds.
- Know the value of a plus.
- Understand how to compute accrued interest, and know who pays accrued interest in the sale of a municipal bond.
- Understand the day-count basis of computations of dollar price and accrued interest for notes (variable) and bonds (30/360).
- Understand tax consequences for an investor selling bonds (considering purchase price, sell price and whether called, or sold at or prior to maturity).
- Define terms used in mathematical calculations of municipal bonds.
- Understand what it means for a municipal bond to trade "flat."

Yield; yield to maturity; yield to call; current yield; after-tax yield; taxable equivalent yield

Mandatory put option

Duration; convexity; basis points

Dated date; debt service; level debt service

Bond years; production; spread; net interest cost; true interest cost; federal arbitrage yield; concession; takedown; management fee

Accrued interest; capital gains; cost basis; amortization of premium; accretion of discount; straight-line accretion; compound accreted value

Part Two

US GOVERNMENT, FEDERAL AGENCY AND OTHER FINANCIAL INSTRUMENTS

TYPES

- Identify financial agencies, their roles and purpose, and obligations of each.
- Explain basic characteristics and terms associated with types of financial instruments, including roles, purpose, taxability, security and cash flows.
- Understand suitability for various types of investors.
- Understand the types of risk associated with each investment.
- Demonstrate knowledge of the mathematical calculations associated with various investments (*e.g.*, interest accrual, inflation adjustment, etc.)

Obligations of the US Treasury

Bills, notes, bonds, STRIPS, SLGS, TIPS

Obligations of the federal agencies

- Understand the purpose and role of the various agencies.
- Describe each agency obligation, including charter, security backing, taxability, cash flows (payment monthly, semi-annually, etc.).

Federal Farm Credit Bank, Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Government National Mortgage Association (GNMA or Ginnie Mae), Student Loan Marketing Association (SLMA), Tennessee Valley Authority

Money market instruments

- Understand purpose and use of the various money market instruments.
- Understand the characteristics of each, including issuer, terms (pricing, including discount pricing, and interest payments), maturities, security, insurance, ratings, liquidity features, and denominations.
- Know how rates for federal funds are determined and how they are traded.
- Understand the suitability of money market instruments for various types of investors.
- Understand how repurchase and reverse repurchase agreements work.

Bankers acceptances; commercial paper; federal funds; repurchase agreements; reverse repurchase agreements; certificates of deposit; money market mutual funds; Treasury bills, discount notes
Maturities; denominations; ratings; suitability; default risk; portfolio holdings

TYPES – MONEY MARKET INSTRUMENTS (cont'd)

(tax-exempt vs. taxable); insurance; security; liquidity features; check-writing capability

Other financial instruments

- Define various financial instruments and understand the characteristics of each (including purpose and risks).
- Understand the suitability of various financial instruments for different types of investors.
- Understand the risks associated with each type of investment.
- Understand the calculations performed for various financial instruments.

Asset-backed securities; collateralized mortgage obligations (CMOs); derivatives; mortgage pass-through securities

Issuers; underlying asset/receivables; timing; cash flows; return on investment; stream of payment; investor uncertainty; prepayment risk; default risk; tender option bond programs

CHARACTERISTICS OF VARIOUS U.S. GOVERNMENT, FEDERAL AGENCY AND OTHER FINANCIAL INSTRUMENTS

- Understand and analyze terms and factors associated with characteristics of financial instruments.
- Understand how size of the issue, rating and credit quality affect liquidity.
- Understand how call features, interest rates and economic conditions affect price volatility.
- Understand how calculations for capital gains/losses are performed.
- Understand calculations for amortization of premium and accretion of discount.
- Understand how the holding period for certain types of securities affects the calculation of capital gains/losses.
- Know what types of securities are quoted on a discount basis, and understand the tax implications for these securities.
- Know the meaning of bond equivalent yield and how to calculate it.
- Compare bond equivalent yield to discount basis.
- Compare properties of securities that trade to a call versus those that trade to maturity.
- Know what types of securities are quoted on a yield basis.
- Understand the distinctions between (compare) current yield, yield to call, and yield to maturity.
- Understand how to calculate the value of a plus (1/64) and what securities are quoted in this manner.
- Define the types of settlement, and know the type of settlement for various securities.
- Know and define various types of delivery options.

CHARACTERISTICS OF VARIOUS FINANCIAL INSTRUMENTS – FEDERAL AND STATE TAX TREATMENT

Federal and state tax treatment

Interest income—taxable vs. tax-exempt; federal, state and local levels
Amortization of premium, accretion of discount
Capital gains/loss

Trading

Discount basis
Bond equivalent yield
Price to call; maturity; yield; current yield; yield to call; yield to maturity
Dollar price quotation and fractions (1/32); value of a plus (1/64)

Settlement

Cash; regular way; extended settle

Delivery

Book-entry only; registered; electronic delivery; DTCC

THE MARKET FOR US GOVERNMENT, FEDERAL AGENCY AND OTHER FINANCIAL INSTRUMENTS

- Understand the purpose of and the policy governing the Federal Reserve's participation in the open market for certain securities.
- Understand the difference between the Federal Reserve's monetary and fiscal policies.
- Understand the effect of the Federal Reserve's operations on interest rates and the money supply.

New issue marketing methods

- Demonstrate understanding of marketing methods for new issue municipal securities.
- Understand the marketing process for Treasuries.
- Define and compare competitive, non-competitive tenders.
- Distinguish between the primary and non-primary dealer market.
- Know the function of a broker's broker.

Treasuries; auction; agency selling group; dealer market
Agencies; competitive; negotiated; competitive tenders; non-competitive tenders; bids; selling group agreements; spread; dealer; brokers' broker

CHARACTERISTICS OF VARIOUS FINANCIAL INSTRUMENTS – SECONDARY MARKET

Secondary market

- Know the roles of a municipal securities broker and municipal securities dealer.
- Compare the functions of a primary dealer and non-primary dealer.
- Understand the operations of the secondary markets, including how securities are quoted in the secondary market.

Broker; dealer; primary dealer vs. non-primary dealer

Credit features

- Understand the features of each type of U.S. Government, federal agency and money market instrument and the comparative strength of each type.
- Know what security backs the debt.
- Compare the types of Treasury guaranties (direct, secondary, or implied) and know where they exist (for which securities).
- Understand the effect of each type of guaranty.

Part Three

ECONOMIC BEHAVIOR AND THE BEHAVIOR OF INTEREST RATES

MONETARY POLICY

Demonstrate basic knowledge of economics.

- Understand the cause and effect of economic growth, changes in prices of currencies and commodities.
- Understand how the Federal Reserve monetary policy achieves price stability, stabilization of foreign exchange markets, and long-term economic growth.
- Identify and define the operating tools of the Federal Reserve.
- Understand the policy role of the Federal Open Market Committee.
- Understand the market role of the Open Market Trading Desk.
- Explain how the Federal Reserve accesses the market.
- Understand the impact of short-term and long-term financing on U. S. Treasury debt management practices.
- Understand federal budgetary practices and their impact on the money and capital markets.
- Identify the factors that influence Federal Reserve policy, and explain the import of changes in these factors on Fed policy.
- Understand the supply and demand for credit relative to the economic cycle.
- Understand the effect of inflation and investor expectations on interest rate levels.
- Know what happens to the value and supply and demand for an investment because of changes in interest rates.

Operating tools of the Federal Reserve

Open market operations; discount rate; reserve requirements; margin requirements

Operations of the Federal Reserve

Federal Open Market Committee; Open Market Trading Desk

Major factors influencing Federal Reserve policy

Monetary aggregates—Money supply; components of the index; capacity utilization (CPU); consumer confidence

Economic indices—Consumer price index; unemployment rate (non-farm payroll); housing starts (existing home sales); foreign trade deficits; purchasing manager's report; leading/lagging/co-existent indicators; producer price indicator; gross domestic product

Commodity prices; foreign exchange rates; international economic activity

ECONOMIC BEHAVIOR AND THE BEHAVIOR OF INTEREST RATES – FISCAL POLICY

FISCAL POLICY

Deficits; surpluses; taxation; spending

FACTORS AFFECTING INTEREST RATES

Commodities; economic indicators; inflation; balance of payments; currency prices; the Federal Reserve policies; Fiscal policies; etc.

Yield curve analysis

- Identify and define types of yield curves.
- Understand financial and economic characteristics of a yield curve.
- Understand what factors (theoretical) affect a yield curve.
- Understand the uses and implications of a yield curve.

Types of curves: flat, inverted (negative); normal (positive); humpbacked (bell-shaped)

Yield spread differentials between credit quality groups

- Demonstrate understanding of how the state of the economy, periods of high/low interest rate levels, and/or the existence/non-existence of compression result in yield spread differentials between credit quality groups.

Part Four

FEDERAL LEGAL CONSIDERATIONS

REGULATION OF MUNICIPAL MARKET PROFESSIONALS

Securities Act of 1933; Securities Exchange Act of 1934 and Amendments; applicable SEC rules

- Understand the applicability of anti-fraud provisions.
- Understand the dealer's requirement to register with the Securities and Exchange Commission (SEC)
- Understand the basic regulatory structure, including the MSRB's authority to enact rules governing municipal securities activities of a dealer, and the authority of the existing enforcement agencies.

SEC; NASD; Office of the Comptroller of the Currency (OCC); Federal Reserve; Federal Deposit Insurance Corporation (FDIC)

SECURITIES INVESTOR PROTECTION ACT OF 1970

- Understand the purpose and function of SIPC.
- Know the types of accounts for which coverage is applicable.
- Understand the limitations on coverage that SIPC provides.

MSRB RULES

- Demonstrate general understanding of the provisions of certain MSRB rules as applied to the job of a municipal securities representative. Questions that require a candidate to apply knowledge of rule requirements may be tested in applicable areas.

Professional qualifications (G-2 through G-7)

- Define categories of registration for municipal securities activities.
- Understand what activities require qualification as a municipal securities representative.
- Understand the restrictions imposed on the activities of an apprentice in the conduct of municipal securities activities.
- Understand the functions of a municipal securities principal and municipal fund securities limited principal.
- Understand the importance of the basic requirements for testing and the requirement to participate in mandated firm and regulatory continuing education.
- Understand the requirement for associated persons to submit and keep current certain information to the dealer (Form U4 or MSD4).
- Understand the rules regarding statutory disqualification and disciplinary actions.

MSRB RULES - RECORDKEEPING

Recordkeeping (G-8)

- Describe the types of records that a firm is required to retain.
- Know what specific types of information must be retained in a firm's records regarding the conduct of its municipal securities activities.
- Understand record keeping requirements for agency and principal orders.
- Understand regulatory requirements regarding maintenance of communication records (emails and instant messages).

*Account records; required customer account information, including such ancillary documents as letters of authorization (LOA) and powers of attorney (POA); securities records; records for agency and principal transactions; records of syndicate transactions; information on political contributions, gifts and gratuities
Telemarketing—Do Not Call lists; customer complaints*

G-27

Investor brochure (G-10)

- Understand the requirement to send the Investor Brochure in certain circumstances.

New issue syndicate practices (G-11)

- Understand the requirement for the syndicate to establish priority provisions for a new issue underwriting.
- Know when the identity of a customer (*i.e.*, what type of order) must be disclosed in a sale of a new issue of municipal securities.
- Understand the responsibility of the syndicate regarding issuer syndicate requirements.
- Understand the dealer's responsibility to disclose certain information, including syndicate expenses.

*Priority provisions: group order; group net; net designated; member
Accumulation account; related portfolio; syndicate; qualified note syndicate order
period; designations; allocations of securities; commitment wire; syndicate expenses*

Uniform practice (G-12)

- Understand the meanings of the uniform settlement dates for transactions in municipal securities.
- Understand what constitutes good delivery for a municipal securities transaction.
- Know what provisions of the uniform practice rule can be altered by agreement between the parties.

*Pricing to the call; calculation of dollar price; good delivery
Settlement—cash; regular way; when, as and if issued; delayed delivery*

Quotations and sales reports (G-13 and G-14)

- Understand the prohibition against fictitious reporting of trades.

MSRB RULES – QUOTATIONS AND SALES REPORTS (cont'd)

- Understand the standards for making a quotation.
- Understand what constitutes publication of a quotation.
- Understand requirements for publishing (or disseminating) trade reports.
- Understand the responsibility to report trades, and which trades must be reported (fifteen minute reporting vs. end of day reporting).

*Joint account; bona fide; nominal
NSCC; DTCC*

Confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers (G-15)

- Know what information is required to be disclosed on customer confirmations (including transaction information; securities identification and descriptive information; disclosure statements for various types of transactions; disclosure of capacity, etc.).
- Know settlement dates for various types of transactions.
- Know the timing for providing certain information to customers.
- Know the requirements regarding trading in minimum denominations.
- Understand regulatory requirements regarding forwarding official communications to customers.

Confirmation requirements; disclosure of material facts; minimum denominations; pricing to the call; registered; book-entry; bearer; periodic and/or non-periodic municipal fund securities (529 Plans); DVP/RVP; disclosure of capacity; execution of a transaction; completion of a transaction

Conduct of municipal securities business (G-17)

- Understand the dealer's obligation to protect customers during the conduct of municipal securities business.
- Understand a dealer's obligation to deal fairly in the conduct of all municipal securities business.
- Understand obligation to adequately disclose material information concerning a security when selling a security.
- Understand the prohibition against engaging in deceptive, dishonest or unfair practices.
- Know how to evaluate the level of sophistication of an institutional customer (*i.e.*, determining SMMP status).
- Understand the applicability of the rule to transactions with an SMMP.
- Understand the applicability of Rule G-17 to other MSRB rules and certain securities and/or concepts related to the conduct of municipal securities activities.
- Understand special disclosure requirements for 529 college savings plans.

MSRB RULES – CONDUCT OF MUNICIPAL SECURITIES BUSINESS (cont’d)

Put option bonds; priority of orders for new issue securities; securities that pre-pay principal; stepped coupon securities; zero coupon securities; stripped coupon securities; mutilated securities; securities with features that affect price/yield calculations; Sophisticated Municipal Market Professional (SMMP)

Execution of transactions (G-18)

- Understand responsibility of broker-dealer acting as agent or brokers’ broker to obtain a price that is fair and reasonable in relation to prevailing market conditions.

Suitability of recommendations and transactions (G-19)

- Know what information is required to be obtained from a customer.
- Understand what factors determine the customer’s financial status, tax status and investment objectives.
- Understand the basis of a recommendation.
- Know what action(s) by a dealer would be considered a recommendation.
- Assess suitability of a security for a customer based on information available about and/or from the customer, the issuer, and/or the security.
- Understand the requirement to obtain customer information and the dealer’s responsibility to determine suitability.
- Understand requirements governing the handling of discretionary accounts.
- Understand the prohibition against churning, and what activities of a representative would be characterized as churning.

Gifts, gratuities and non-cash compensation (G-20)

- Know the annual limitation on gifting.
- Know what forms of entertainment are allowable under the rules.
- Understand requirements governing the treatment of sales incentives.
- Understand the difference between gifts and entertainment (giving and receiving).
- Understand the requirement for the dealer to maintain records of gifts, including records of non-cash compensation.

Offeror; non-cash compensation

Advertising (G-21)

- Know what forms of communication are considered an advertisement.
- Understand general requirements governing the use of municipal securities advertisements.
- Understand the disclosure requirements for advertisements for specific types of securities (*e.g.*, zero coupon bonds).
- Understand requirements governing advertising performance data for municipal fund securities.
- Understand the prohibition against false or misleading advertisements.

MSRB RULES –ADVERTISING (cont’d)

- Know the approval requirements for advertisements.
- Understand the requirements for accuracy of advertisements at time of publication and sale.
- Understand the differences between correspondence and advertising.

Official statement; preliminary official statement; market letter; offering circular; professional advertisements; product advertisements; new-issue advertisements

Control relationships (G-22)

- Define control relationship.
- Understand the disclosure requirements when a control relationship exists.
- Understand how transactions are handled in a discretionary account when a control relationship exists.

Activities of financial advisors (G-23)

- Determine where a financial advisory relationship exists.
- Understand the ethical standards and disclosure requirements for a broker-dealer that serves as a financial advisor.
- Understand the specific requirements governing a financial advisor’s participation as an underwriter in negotiated and competitive issues.
- Understand what activities of the dealer may give rise to a conflict of interest in the financial advisory relationship.
- Understand the requirement to maintain records of the financial advisory activities.

Use of ownership information obtained in a fiduciary or agency capacity (G-24)

- Understand the prohibition against using confidential information obtained while acting as a fiduciary for financial gain without appropriate consent.

Improper use of assets (G-25)

- Understand the prohibitions against sharing in accounts and the improper use of customer assets.
- Understand the purpose for and use of put options and repurchase agreements.
- Understand prohibition against guaranteeing losses in a customer’s account.

Customer account transfers (G-26)

- Understand the sequence of and procedures for the execution of transfer instructions.
- Understand the responsibilities of the carrying party and the receiving party.
- Understand what occurs when an account is frozen.

Delayed delivery asset; in-transfer asset; non-transferable asset; validation of transfer instruction; fail contracts

MSRB RULES - SUPERVISION

Supervision (G-27)

- Understand the authority structure mandated for approvals of account openings, transactions, sales literature and correspondence (e-mails, instant messages, web pages, etc).
- Understand requirement to have new accounts approved promptly and trades approved daily.

Transactions with employees and partners of other municipal securities professionals (G-28)

- Understand a dealer's requirement to notify the employing dealer of a customer of account activity.

Availability of Board rules (G-29)

- Understand the requirement to make Board rules available to customers.
- Understand the dealer's obligation to maintain Board rules in offices where municipal securities activities are conducted.
- Understand acceptable means of complying with the rule.

Prices and commissions (G-30)

- Understand relevant factors considered to determine fairness of pricing in principal transactions and fairness of commissions in agency transactions.

Agency transactions; principal transactions; mark-ups and mark downs

Reciprocal dealings with municipal securities investment companies (G-31)

- Understand prohibition against reciprocal sales with an investment company.

Disclosures in connection with new issues (G-32)

- Understand the responsibility to deliver an official statement to a customer by settlement of transaction.
- Understand the disclosure requirements for customers and between dealers.
- Understand the responsibilities regarding the official statement that are imposed on managing underwriters, sole underwriters and financial advisors.

New issue municipal securities; official statement; new issue disclosure period; primary offering; notice of sale

CUSIP numbers and new issue requirements (G-34)

- Understand the requirement to make timely application for CUSIP numbers.
- Know what information must be provided to the Board.

Negotiated award; competitive award; time of formal award; refunding

MSRB RULES – DELIVERY OF OFFICIAL STATEMENTS, ETC., TO THE BOARD

Delivery of official statements, advance refunding documents and Forms G-36(OS) and G-36(ARD) to the Board or its designee (G-36)

- Understand the requirement to deliver official statements, and advance refunding documents (escrow agreement) to the Board in a timely manner for various types of issues.

Final official statement; primary offering; advance refunding documents; SEC Rule 15c2-12

Political contributions and prohibitions on municipal securities business (G-37)

- Ensure that the integrity of the municipal securities industry is maintained.
- Know what actions by a dealer and/or a municipal finance professional may invoke a ban on the municipal securities business of the dealer.
- Understand the prohibition against solicitation of political contributions.
- Understand the prohibition against indirect contributions.
- Understand the dealer's requirement to report contributions to the MSRB.
- Define terms associated with provisions of the rule.

Municipal securities business; official of an issuer; municipal finance professional; non-MFP executive officer; payment; contribution; de minimus; political action committee (PAC)

Solicitation of municipal securities business (G-38)

- Understand prohibition against paying individuals not affiliated with the dealer for solicitation of municipal securities business.

Municipal securities business; payment; affiliated person; solicitation

Telemarketing (G-39)

- Understand industry rules regarding telephone solicitation, and exceptions allowed under these rules.

Telemarketing; telephone solicitation; time of day restriction; firm-specific do-not-call list; National Do-Not-Call list; established business relationship; prior express written consent; personal relationship; account activity

Anti-money laundering compliance program (G-41)

- Understand the representative's responsibility to comply with industry regulations regarding anti-money laundering.
- Understand representative's responsibility as the first line of defense in protection of customer and firm.
- Understand representative's responsibility to know the customer, and the source of funds deposited to an account.

MSRB RULES – ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM (cont'd)

Suspicious activity report (SAR); USA PATRIOT Act; Office of Foreign Assets Control (OFAC); Bank secrecy act