



Municipal Securities Rulemaking Board

October 3, 2014

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20540-1090

Re: Response to Comments on File No. SR-MSRB-2014-05

Dear Secretary:

On July 22, 2014, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“SEC”) a proposed rule change consisting of amendments to the Firm Element continuing education requirements for brokers, dealers and municipal securities dealers (“dealers”) of MSRB Rule G-3, on professional qualification requirements (the “proposed rule change”). The SEC published notice of the proposed rule change on July 29, 2014,¹ and notice was then published in the Federal Register on August 5, 2014.² The SEC received four comment letters in response to the proposed rule change.³ Each of the commenters generally supports the proposed rule change, though three of the four commenters suggest minor modifications.⁴

As described in the filing with the SEC, the proposed rule change would modify the Firm Element continuing education requirement of MSRB Rule G-3(h)(ii) by requiring dealers to conduct annual municipal securities training for registered representatives who regularly engage

¹ See Exchange Act Release No. 72705 (Jul. 29, 2014).

² See 79 FR 45529 (Aug. 5, 2014).

³ Comment letters were submitted to the SEC by Bond Dealers of America (“BDA”), Financial Services Institute (“FSI”), Investment Company Institute (“ICI”), and the Securities Industry and Financial Markets Association (“SIFMA”).

⁴ BDA did suggest generally that the SEC consider the potential increased costs on small and middle-market dealers with limited resources. In the filing with the SEC, the MSRB addressed the issue of costs in its statement on burden on competition, under the heading “assessing the benefits and costs.” SIFMA also suggests the MSRB conducted an inadequate economic analysis. In the filing with the SEC, the MSRB provided an appropriate economic analysis of the proposed rule change in its statement on burden on competition.

in, and municipal securities principals who regularly supervise, municipal securities activities. The MSRB believes this training requirement is appropriately tailored to those individuals who are most actively engaged in municipal securities activities.

Determining Who is Regularly Engaged in Municipal Securities Activities

FSI expresses its general support for the proposed rule change, noting that it supports the MSRB's goal to ensure that certain professionals, including middle and back-office professionals, understand their responsibilities and the applicable regulations related to municipal securities activities.⁵ At the same time, FSI suggests that the phrase "regularly engage in municipal securities activities" used to define the covered registered persons subject to the training is less clear than the phrase "primarily engaged in municipal securities activities" used in the MSRB's initial proposal.⁶ The MSRB does not agree that the new language is less clear or that it will lead to an overly broad application of the Firm Element continuing education requirements. As the MSRB explained in the filing with the SEC, the new phrase provides dealers with the flexibility to determine who must participate in the Firm Element continuing education program, so long as the dealers have a reasonable basis for determining which registered persons regularly engage in or supervise municipal securities activities. Instead of promulgating a prescriptive rule, the MSRB believes that dealers should have the flexibility to tailor their municipal securities training based on their size, organizational structure, and scope of business activities. Further, the MSRB believes that dealers are best suited to evaluate their municipal securities activities and determine who is regularly engaged in such activities and therefore must participate in the annual training.

Documenting Methodology to Identify Covered Registered Persons

ICI expresses its general support for the proposed rule change.⁷ However, ICI believes that the proposed rule change may not go far enough because there is no explicit requirement in the proposed amendments to Rule G-3 to require dealers to maintain written documentation of their method for determining who must participate in the Firm Element continuing education.⁸ There is, however, a current requirement in Rule G-3(h)(ii)(B) that dealers conduct a needs analysis and develop a written training plan. While the rule provides standards for the written training plan, it is not prescriptive as to the required content of the plan. Nevertheless, as described in the filing with the SEC, the MSRB would expect dealers, as part of such needs analysis, to evaluate their training needs and document in their written training plans their methodology for determining who should be trained.

⁵ See FSI letter.

⁶ *Id.*

⁷ See ICI letter.

⁸ *Id.*

Harmonization of FINRA and MSRB Firm Element Requirements

FSI and SIFMA raise similar concerns regarding the perceived de-harmonization between the proposed amendments to Rule G-3(h)(ii) and FINRA Rule 1250(b).⁹ The proposed rule change would differ from FINRA's continuing education rule in that it would require annual municipal securities training for certain registered persons. As the MSRB explained in the filing with the SEC, this training is important because, currently, registered representatives who regularly engage in municipal securities activities, and registered principals who regularly supervise municipal securities activities, may receive insufficient or no municipal securities training, particularly if they are employed by a dealer who offers a wide range of financial products and prioritizes training on other products over municipal securities. The MSRB believes the proposed rule change will help ensure the delivery of municipal securities content to those registered individuals who are regularly engaged in or supervise municipal securities activities. At the same time, the proposed rule change would better align the MSRB and FINRA Firm Element continuing education requirements with regard to certain registered individuals who do not have direct contact with customers. In addition to requiring certain registered representatives who have direct contact with customers and their immediate supervisors to participate in Firm Element continuing education, FINRA currently requires operations professionals and research analysts who may have no customer contact to participate in such training. The proposed rule change would extend the MSRB Firm Element continuing education requirement to certain registered persons who do not have direct contact with customers, consistent with the approach taken by FINRA.

Effective Date of the Proposed Rule Change

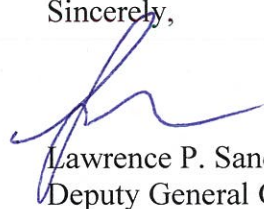
SIFMA requests clarification regarding the January 1, 2015 effective date, and in particular whether dealers have until December 2015 to complete the annual training requirement as provided in the proposed rule change.¹⁰ While the effective date of the proposed rule change would be January 1, 2015, dealers would be in compliance if they completed their Firm Element continuing education by December 31, 2015 and annually thereafter.

⁹ FINRA Rule 1250(b)(1) states, "The requirements of this subparagraph shall apply to any person registered with a member who has direct contact with customers in the conduct of the member's securities sales, trading and investment banking activities, any person registered as an operations professional pursuant to Rule 1230(b)(6) or a research analyst pursuant to NASD Rule 1050, and to the immediate supervisors of such persons (collectively, "covered registered persons"). "Customer" shall mean any natural person and any organization, other than another broker or dealer, executing securities transactions with or through or receiving investment banking services from a member."

¹⁰ See SIFMA letter.

If you have any questions regarding this matter, please contact me or Michael Cowart,
Assistant General Counsel-PQ, at (703) 797-6600.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lawrence P. Sandor", is written over the printed name.

Lawrence P. Sandor
Deputy General Counsel