



Municipal Securities Rulemaking Board

February 5, 2015

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

Re: Amendment No. 1 to SR-MSRB-2014-08

Dear Secretary:

On November 18, 2014, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“SEC”) a proposed rule change consisting of amendments to MSRB Rules G-1, on separately identifiable department or division of a bank; G-2, on standards of professional qualification; G-3, on professional qualification requirements; and D-13, on municipal advisory activities (the “original proposed rule change”). The SEC published notice of the original proposed rule change on December 1, 2014,¹ and notice was then published in the Federal Register on December 5, 2014.² The SEC received five comment letters on the original proposed rule change. On February 5, 2015 the MSRB submitted its response to comments and filed a partial amendment (“Amendment No. 1”) to the original proposed rule change to remove a proposed clause in MSRB Rules G-1 and G-3 regarding the provision of financial advisory or consultant services for issuers in connection with the issuance of municipal securities. The MSRB believes it to be premature to make such changes.

A copy of Amendment No. 1 is attached to this letter, and Exhibit 4 thereto shows changes to the original proposed rule text.

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

Sincerely,

Lawrence P. Sandor
Deputy General Counsel

¹ See Exchange Act Release No. 73708 (Dec. 1, 2014).

² See 79 FR 72225 (Dec. 5, 2014).

The Municipal Securities Rulemaking Board (“MSRB”) is filing this partial amendment (“Amendment No. 1”) to File No. SR-MSRB-2014-08, originally filed with the Securities and Exchange Commission (the “Commission”) on November 18, 2014, with respect to a proposed rule change to establish professional qualification requirements for municipal advisors and their associated persons (the “original proposed rule change” and, together with Amendment No. 1, the “proposed rule change”). The MSRB intends to implement the proposed rule change 60 days following the date of Commission approval.

The original proposed rule change consists of proposed amendments to Rule G-1, on separately identifiable department or division of a bank; Rule G-2, on standards of professional qualification; Rule G-3, on professional qualification requirements; and Rule D-13, on municipal advisory activities. The MSRB submitted the original proposed rule change to, in part, establish professional qualification requirements for municipal advisors. The original proposed rule change would establish the following two new registration classifications for municipal advisors under MSRB Rule G-3: (a) municipal advisor representatives – those individuals who engage in municipal advisory activities; and (b) municipal advisor principals – those individuals who engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons. The original proposed rule change also would amend MSRB Rules G-1 and G-3 to provide that brokers, dealers and municipal securities dealers (“dealers”) and their municipal securities representatives may continue to perform financial advisory or consultative services for issuers in connection with the issuance of municipal securities, “except to the extent the municipal securities representatives engaged in the activities must be qualified as municipal advisor representatives to perform such services.”

Amendment No. 1 would partially amend the text of the original proposed rule change to revise Rules G-1(a)(ii)(B), G-3(a)(i)(A)(2) and G-3(b)(i)(B) by deleting the quoted clause above (the “subject clause”). The MSRB has determined it would be premature to consider deleting the subject clause from Rules G-1 and G-3 until certain foundational rules regarding municipal advisors are approved and effective. The intent of the MSRB in adding the subject clause in the original proposed rule change was to ensure that the permitted activities of municipal securities representatives and municipal advisor representatives (and their principals) were properly distinguished. Currently, under MSRB rules, municipal securities representatives who engage in financial advisory or consultative services for issuers in connection with the issuance of municipal securities and municipal securities principals who supervise such activity (the “subject activity”) are subject to MSRB rules. With the establishment of new rules and regulations governing municipal advisors, a municipal securities representative engaging in the subject activity or a municipal securities principal supervising such activity may also be required to comply with rules governing municipal advisors and may, under the proposed rule change, be deemed a municipal advisor representative or principal. Given that certain foundational MSRB rules governing municipal advisors are not yet effective, the original proposed rule change could have created the perception of a gap in the regulation of individuals who engage in the subject activity. To clarify and ensure that municipal securities representatives or principals who engage in the subject activity remain covered by applicable dealer regulations until such time as the MSRB may determine that such activities are appropriately covered by the developing municipal advisor regulatory framework, Amendment No. 1 deletes the subject clause.

The MSRB believes the Commission has good cause, pursuant to Section 19(b)(2) of the Act, for granting accelerated approval of Amendment No. 1. Specifically, the proposed rule change will retain the current rule language in Rules G-1(a)(ii)(B), G-3(a)(i)(A)(2) and G-3(b)(i)(B). The revisions included in Amendment No. 1 are minor, technical corrections being made to address the perception of a regulatory gap and are consistent with the purpose of the original proposed rule change. The MSRB does not believe the revisions included in Amendment No. 1 raise significant new issues or alter the substance of the proposed rule change.

The changes made by Amendment No.1 to the original proposed rule change are indicated as attached in Exhibit 4. Material proposed to be deleted is enclosed in brackets.

The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

EXHIBIT 4

Rule G-1: Separately Identifiable Department or Division of a Bank

(a) Municipal Securities Dealer Activities.

(i) No change.

(ii) For purposes of this rule, the activities of the bank which shall constitute municipal securities dealer activities are as follows:

(A) No change.

(B) financial advisory and consultant services for issuers in connection with the issuance of municipal securities[, except to the extent a person must be qualified as a municipal advisor representative to perform such services];

(C) – (F) No change.

provided, however, that the activities enumerated in paragraphs (D) and (E) above shall be limited to such activities as they relate to the activities enumerated in paragraphs (A) and (B) above.

(iii) – (iv) No change.

(b) No change.

Rule G-3: Professional Qualification Requirements

No broker, dealer, municipal securities dealer, municipal advisor or person who is a municipal securities representative, municipal securities sales limited representative, limited representative - investment company and variable contracts products, municipal securities principal, municipal fund securities limited principal, municipal securities sales principal, municipal advisor representative or municipal advisor principal (as hereafter defined) shall be qualified for purposes of Rule G-2 unless such broker, dealer, municipal securities dealer, municipal advisor or person meets the requirements of this rule.

(a) *Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative - Investment Company and Variable Contracts Products.*

(i) Definitions.

(A) The term "municipal securities representative" means a natural person associated with a broker, dealer or municipal securities dealer, other than a person whose functions are solely clerical or ministerial, whose activities include one or more of the following:

(1) No change.

(2) financial advisory or consultant services for issuers in connection with the issuance of municipal securities[, except to the extent a person must be qualified as a municipal advisor representative to perform such services];

(3) – (4) No change.

provided, however, that the activities enumerated in subparagraphs (3) and (4) above shall be limited to such activities as they relate to the activities enumerated in subparagraphs (1) and (2) above.

(B) - (C) No change.

(ii) No change.

(b) *Municipal Securities Principal; Municipal Fund Securities Limited Principal.*

(i) Definition. The term "municipal securities principal" means a natural person (other than a municipal securities sales principal), associated with a broker, dealer or municipal securities dealer who is directly engaged in the management, direction or supervision of one or more of the following activities:

(A) No change.

(B) financial advisory or consultant services for issuers in connection with the issuance of municipal securities[, except to the extent a person must be qualified as a municipal advisor representative to perform such services];

(C) – (G) No change.

(ii) – (iv) No change.

(c) – (i) No change.

Supplementary Material

.01 - .02 No change.

EXHIBIT 5

Rule G-1: Separately Identifiable Department or Division of a Bank

(a) Municipal Securities Dealer Activities.

(i) A separately identifiable department or division of a bank, as such term is used in section 3(a)(30) of the Act, is that unit of the bank which conducts all of the activities of the bank relating to the conduct of business as a municipal securities dealer ("municipal securities dealer activities"), as such activities are hereinafter defined, *provided that*:

[(1)] (A) Such unit is under the direct supervision of an officer or officers designated by the board of directors of the bank as responsible for the day-to-day conduct of the bank's municipal securities dealer activities, including the supervision of all bank employees engaged in the performance of such activities; and

[(2)] (B) There are separately maintained in or separately extractable from such unit's own facilities or the facilities of the bank, all of the records relating to the bank's municipal securities dealer activities, and *further provided that* such records are so maintained or otherwise accessible as to permit independent examination thereof and enforcement of applicable provisions of the Act, the rules and regulations thereunder and the rules of the Board.

[(b)] (ii) For purposes of this rule, the activities of the bank which shall constitute municipal securities dealer activities are as follows:

[(1)] (A) underwriting, trading and sales of municipal securities;

[(2)] (B) financial advisory and consultant services for issuers in connection with the issuance of municipal securities;

[(3)] (C) processing and clearance activities with respect to municipal securities;

[(4)] (D) research and investment advice with respect to municipal securities;

[(5)] (E) any activities other than those specifically enumerated above which involve communication, directly or indirectly, with public investors in municipal securities; and

[(6)] (F) maintenance of records pertaining to the activities described in paragraphs [(1)] (A) through [(5)] (E) above;

provided, however, that the activities enumerated in paragraphs [(4)] (D) and [(5)] (E) above shall be limited to such activities as they relate to the activities enumerated in paragraphs [(1)] (A) and [(2)] (B) above.

[(c)] (iii) The fact that directors and senior officers of the bank may from time to time set broad policy guidelines affecting the bank as a whole and which are not directly related to the day-to-day conduct of the bank's municipal securities dealer activities, shall not disqualify the unit hereinbefore described as a separately identifiable department or division of the bank or require that such directors or officers be considered as part of such unit.

[(d)] (iv) The fact that the bank's municipal securities dealer activities are conducted in more than one geographic organizational or operational unit of the bank shall not preclude a finding that the bank has a separately identifiable department or division for purposes of this rule, *provided, however*, that all such units are identifiable and that the requirements of paragraphs [(1)] (A) and [(2)] (B) of section [(a)] (i) of this rule are met with respect to each such unit. All such geographic, organizational or operational units of the bank shall be considered in the aggregate as the separately identifiable department or division of the bank for purposes of this rule.

(b) *Municipal Advisory Activities.* For purposes of its municipal advisory activities, the term “separately identifiable department or division of a bank” shall have the same meaning as used in 17 CFR 240.15Ba1-1(d)(4).

Rule G-2: Standards of Professional Qualification

No broker, dealer or municipal securities dealer shall effect any transaction in, or induce or attempt to induce the purchase or sale of, any municipal security, and no municipal advisor shall engage in municipal advisory activities, unless such broker, dealer, municipal securities dealer or municipal advisor [or municipal securities dealer] and every natural person associated with such broker, dealer, municipal securities dealer or municipal advisor [or municipal securities dealer] is qualified in accordance with the rules of the Board.

Rule G-3: Professional Qualification Requirements

No broker, dealer, [or] municipal securities dealer, municipal advisor or person who is a municipal securities representative, municipal securities sales limited representative, limited representative - investment company and variable contracts products, municipal securities principal, municipal fund securities limited principal, [or] municipal securities sales principal, municipal advisor representative or municipal advisor principal (as hereafter defined) shall be

qualified for purposes of Rule G-2 unless such broker, dealer, [or] municipal securities dealer, municipal advisor or person meets the requirements of this rule.

(a) Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative - Investment Company and Variable Contracts Products.

(i) No change.

(ii) Qualification Requirements.

(A) - (B) No change.

[(D)] (C) Any person who ceases to be associated with a broker, dealer or municipal securities dealer (whether as a municipal securities representative or otherwise) for two or more years at any time after having qualified as a municipal securities representative in accordance with subparagraph (a)(ii)(A)[,] or (B) [or (C)] shall again meet the requirements of subparagraph (a)(ii)(A)[,] or (B) [or (C)] prior to being qualified as a municipal securities representative.

[(iii) Apprenticeship.]

[(A) Any person who first becomes associated with a broker, dealer or municipal securities dealer in a representative capacity (whether as a municipal securities representative, general securities representative or limited representative - investment company and variable contracts products) without having previously qualified as a municipal securities representative, general securities representative or limited representative - investment company and variable contracts products shall be permitted to function in a representative capacity without qualifying pursuant to subparagraph (a)(ii)(A), (B) or (C) for a period of at least 90 days following the date such person becomes associated with a broker, dealer or municipal securities dealer, *provided, however,* that such person shall not transact business with any member of the public with respect to, or be compensated for transactions in, municipal securities during such 90 day period, regardless of such person's having qualified in accordance with the examination requirements of this rule. A person subject to the requirements of this paragraph (a)(iii) shall in no event continue to perform any of the functions of a municipal securities representative after 180 days following the commencement of such person's association with such broker, dealer or municipal securities dealer, unless such person qualifies as a municipal securities representative pursuant to subparagraph (a)(ii)(A), (B) or (C).]

[(B) Prior experience, of at least 90 days, as a general securities representative, limited representative - investment company and variable contracts products or limited representative - government securities, will meet the requirements of this paragraph (a)(iii).]

(b) Municipal Securities Principal; Municipal Fund Securities Limited Principal.

(i) Definition. The term "municipal securities principal" means a natural person (other than a municipal securities sales principal), associated with a broker, dealer or municipal securities dealer [that has filed with the Board in compliance with rule A-12,] who is directly engaged in the management, direction or supervision of one or more of the following activities:

(A) – (G) No change.

(ii) – (iv) No change.

(c) No change.

(d) Municipal Advisor Representative

(i) Definition.

(A) The term "municipal advisor representative" means a natural person associated with a municipal advisor who engages in municipal advisory activities on the municipal advisor's behalf, other than a person performing only clerical, administrative, support or similar functions.

(ii) Qualification Requirements.

(A) Every municipal advisor representative shall take and pass the Municipal Advisor Representative Qualification Examination prior to being qualified as a municipal advisor representative. The passing grade shall be determined by the Board.

(B) Any person who ceases to be associated with a municipal advisor for two or more years at any time after having qualified as a municipal advisor representative in accordance with subparagraph (d)(ii)(A) shall take and pass the Municipal Advisor Representative Qualification Examination prior to being qualified as a municipal advisor representative, unless a waiver is granted pursuant to subparagraph (h)(ii) of this rule.

(e) Municipal Advisor Principal

(i) Definition. The term "municipal advisor principal" means a natural person associated with a municipal advisor who is qualified as a municipal advisor representative and is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.

(ii) Numerical Requirements. Every municipal advisor shall have at least one municipal advisor principal.

[(e)] (f) Confidentiality of Qualification Examinations. No associated person of a broker, dealer, [or] municipal securities dealer or municipal advisor shall:

(i) – (iv) No change.

[(f)] (g) *Retaking of Qualification Examinations.* Any associated person of a broker, dealer, [or] municipal securities dealer or municipal advisor who fails to pass a qualification examination prescribed by the Board shall be permitted to take the examination again after a period of 30 days has elapsed from the date of the prior examination, except that any person who fails to pass an examination three or more times in succession shall be prohibited from again taking the examination until a period of six months has elapsed from the date of such person's last attempt to pass the examination.

[(g)] (h) *Waiver of Qualification Requirements.*

(i) No change.

(ii) The requirements of paragraph (d)(ii)(A) may be waived by the Board in extraordinary cases for a municipal advisor representative or municipal advisor principal.

[(h)] (i) *Continuing Education Requirements*

This section [(h)] (i) prescribes requirements regarding the continuing education of certain registered persons subsequent to their initial qualification and registration with a registered securities association with respect to a person associated with a member of such association, or the appropriate regulatory agency as defined in section 3(a)(34) of the Act with respect to a person associated with any other broker, dealer or municipal securities dealer ("the appropriate enforcement authority"). The requirements shall consist of a Regulatory Element and a Firm Element as set forth below.

(i) – (ii) No change.

Supplementary Material

.01 No change.

.02 Waivers. The Board will consider waiving the requirement that a municipal advisor representative or municipal advisor principal pass the Municipal Advisor Representative Qualification Examination in extraordinary cases: (1) where the applicant participated in the development of the Municipal Advisor Representative Qualification Examination as a member of the Board's Professional Qualifications Advisory Committee; or (2) where the applicant previously qualified as a municipal advisor representative by passing the Municipal Advisor Representative Qualification Examination and such qualification lapsed pursuant to subparagraph (d)(ii)(B) of this rule.

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Rule D-13: "Municipal Advisory Activities"

Except as otherwise specifically provided by rule of the Board, "[M] municipal advisory activities" means the activities described in Section 15B(e)(4)(A)(i) and (ii) of the Act and the rules and regulations promulgated thereunder.