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Affected Rules
[Rule G-1](#); [Rule G-2](#);
[Rule G-3](#); [Rule D-13](#)

MSRB to Amend Rules to Create Professional Qualification Standards for Municipal Advisors

Overview

The Municipal Securities Rulemaking Board (MSRB) received approval from the Securities and Exchange Commission (SEC or Commission) on February 26, 2015 to amend MSRB 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, to establish professional qualification requirements for municipal advisors and make related technical rule changes.¹

The Securities Exchange Act of 1934 (the Act) requires the MSRB to establish professional standards for municipal advisors.² The Act also provides the MSRB with authority to classify municipal advisors and their associated persons³ and to establish competency tests for such individuals as it finds necessary or appropriate in the public interest or for the protection of investors and municipal entities or obligated persons.⁴

The amendments to Rule G-3 establish two new registration classifications for municipal advisors: (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. To qualify as a municipal advisor

¹ See Exchange Act Release No. 74384 (Feb. 26, 2015), File No. SR-MSRB-2014-08 (Nov. 18, 2014).

² 15 U.S.C. 78o-4(b)(2)(L)(iii).

³ 15 U.S.C. 78o-4(b)(2)(A)(i).

⁴ 15 U.S.C. 78o-4(b)(2)(A)(iii).



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representative or municipal advisor principal, an individual must pass the municipal advisor representative qualification examination (the Series 50 examination).

The Series 50 examination will commence with a pilot test, which the MSRB plans to deliver in the fall of 2015. Individuals who pass the pilot test will be qualified to act as municipal advisor representatives or principals, as if they had passed the permanent test. The exact dates of the pilot test and the manner in which an individual may register to take the test will be announced by the MSRB in the near future. In the interim, individuals interested in taking the pilot test may subscribe to an [email distribution list](#) on the MSRB's website to learn more about the pilot test. The pilot test will be used to establish the passing grade for the test. Once the passing grade is established, the MSRB will announce the effective date of the permanent test. Individuals who engage in or supervise municipal advisory activities will have one year from the effective date to pass the test.

In addition to establishing the two new municipal advisor classifications, the amendments to Rule G-2 specify that no municipal advisor shall engage in municipal advisory activities unless such municipal advisor is qualified in accordance with MSRB rules. The MSRB also revised the definition of municipal advisory activities in Rule D-13 to incorporate the Commission's rules by reference -- providing that the term "municipal advisory activities" means, except as otherwise specifically provided by rule of the Board, the activities described in Section 15(B)(e)(4)(A)(i) and (ii) of the Act⁵ and the rules and regulations promulgated thereunder. Finally, Rule G-1 has been amended to provide that, for purposes of municipal advisory activities, the term "separately identifiable department or division of a bank" would have the same meaning as in Securities Exchange Act Rule 15Ba1-1(d)(4).⁶

The rule amendments become effective on April 27, 2015. Questions about this notice may be directed to Lawrence P. Sandor, Deputy General Counsel, or Michael Cowart, Assistant General Counsel, at 703-797-6600.

⁵ See Section 15B(e)(4)(A)(i) and (ii) of the Act, 15 U.S.C. 78o-4(e)(4)(A)(i) and (ii).

⁶ See 17 CFR 240.15Ba1-1(d)(4).

Summary of Amendments

New Registration Classifications and Test Requirement

Rule G-3 now has two new municipal advisor classifications: (a) municipal advisor representative and (b) municipal advisor principal. Rule G-3 defines a municipal advisor representative as 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. A municipal advisor principal is defined as 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. Individuals who engage in municipal advisory activities must qualify as municipal advisor representatives and individuals who engage in the management, direction or supervision of the municipal advisory activities of municipal advisors and their associated persons must qualify as municipal advisor principals. To qualify as either a municipal advisor representative or municipal advisor principal, an individual must pass the Series 50 examination.

Rule G-3 also requires that municipal advisors appoint at least one municipal advisor principal to be responsible for supervising the municipal advisory activities of the municipal advisor.⁷

Grace Period

To provide a transitional period for municipal advisors to comply with the new professional qualification requirements, prospective municipal advisor representatives and principals have a one-year grace period in which to take (and, if necessary retake) the Series 50 examination. During the grace period, municipal advisor professionals may continue to engage in or supervise municipal advisory activities. The grace period is intended to provide prospective municipal advisor representatives and principals with sufficient time to study for and take the examination without causing disruption to the business of the municipal advisor. Individuals who do not pass the examination on a particular sitting will be able to retake the examination pursuant to the terms of Rule G-3(g).

⁷ MSRB Rule G-44, which (other than Rule G-44(d)) will be effective on April 23, 2015, sets forth the obligation of municipal advisors to supervise the municipal advisory activities of the municipal advisor and its associated persons to ensure compliance with applicable law and MSRB rules.

Elimination of Apprenticeship Requirement

The amendments to Rule G-3 eliminate the requirement that municipal securities representatives serve an apprenticeship period of 90 days before transacting business with any member of the public or receiving compensation for such activities. Similarly, the MSRB has not established an apprenticeship requirement for municipal advisor representatives. The MSRB believes at this time that dealers and municipal advisors should be allowed the flexibility to tailor the training requirements for newly registered persons based on each firm's individual needs and supervisory structure.

Effective Date

The rule changes become effective on April 27, 2015.

March 2, 2015

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Text of Amendments⁸

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.

⁸ Underlining indicates new language; strikethrough denotes deletions.

~~(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.

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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, “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.