MSRB
Municipal Securities Rulemaking Board

MSRB Notice

2026-08

Publication Date
September 3, 2026

Stakeholders
Municipal Securities Dealers, Bank Dealers, Investors, General Public

Notice Type
Approval Notice

Effective Date
August 1, 2027

Category
Uniform Practice

Affected Rules
Rule G-12

Notice Title
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MSRB Amends Rule G-12, on Uniform Practice, to Revise Section (c) on Inter-dealer Confirmations to Streamline Rule Requirements and Amend or Retire Certain Outdated Interpretive Guidance

Overview

On June 17, 2026, the Municipal Securities Rulemaking Board (MSRB) received approval from the U.S. Securities and Exchange Commission ("Commission")[1] to amend MSRB Rule G-12, on uniform practice, to (i) codify into rule language and to amend or retire certain existing interpretive guidance on confirmation requirements for those inter-dealer municipal securities transactions between two brokers, dealers or municipal securities dealers (collectively, "dealers") that are ineligible for automated comparison at a registered clearing agency (a "covered inter-dealer trade"), as well as to retire or revise other related interpretive guidance, and (ii) make technical amendments to enhance the clarity of the rule (the "rule amendments" or "amended rule").

Effective Date and Early Compliance

The rule amendments will become effective on August 1, 2027 (the "effective date"). In connection with a covered inter-dealer trade effected prior to the effective date, a dealer may choose to provide a confirmation that is in compliance with the provisions of the amended rule, rather than with the existing provisions of Rule G-12 and related interpretive guidance (the "current provisions") if a dealer's contra party does not object to confirmation that meets the

[1] *See* Securities Exchange Act of 1934 ("Exchange Act") Release No. 105714 (Jun. 17, 2026), 91 FR 37480 (Jun. 23, 2026), File No. SR-MSRB-2026-01 ("Approval Notice"). *See also* Exchange Act Release No. 105362 (May 4, 2026), 91 FR 24919 (May 7, 2026), File No. SR–MSRB–2026–01 (''Filing Notice'').

provisions of the amended rule. Furthermore, dealers engaging in covered inter-dealer trades, participating on blockchain (for example, if tokenized municipal securities were to be traded on a blockchain) or other venue prior to the effective date of the rule amendments could, consistent hereto, be required by such venue to consent to or otherwise accept the use of confirmations for covered inter-dealer trades that meet the provisions of the amended rule, rather than the current provisions, prior to such effective date.[2]

Summary of Rule Change

Section (c) of Rule G-12 sets forth the confirmation requirements for covered inter-dealer trades, consisting of inter-dealer municipal securities transactions that are ineligible for automated comparison in a system operated by a registered clearing agency,[3] also referred to herein as "inter-dealer confirmations."[4] The rule amendments significantly streamline the requirements of Rule G-12(c) and related interpretations to the core elements needed to fulfill the purpose of this confirmation requirement to facilitate comparison of inter-dealer transactions where such transactions cannot use the standard automated comparison system. The rule amendments, among other things, incorporate the key comparison-related principles established in interpretive guidance into the relevant rule text and eliminate certain requirements, from the current rule text and certain interpretive guidance, unrelated to the comparison process and certain other outdated guidance.[5]

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[2] Thus, for covered inter-dealer trades through a venue requiring such consent or acceptance, dealers could rely on the provisions of the amended rule prior to the effective date and would not be required to (but could as a matter of business practice) meet the current provisions if the contra party does not object to the same arrangement. As the MSRB has previously described, if tokenized municipal securities were to be traded on a blockchain, dealers would be able to meet their confirmation requirement with respect to covered inter-dealer trades through the transmission of the required information on or as part of the mechanics of the blockchain itself, such as by means of information integrated within a smart contract or provided through another protocol of such blockchain.

[3] A list of registered clearing agencies is available at https://www.sec.gov/about/divisions-offices/division-trading-markets/clearing-agencies. Currently, registered clearing agencies active in the municipal securities market consist of the Depository Trust & Clearing Corporation and its affiliates.

[4] Rule G-12(a) exempts inter-dealer transactions in municipal securities submitted to a registered clearing agency for comparison from the inter-dealer confirmation provisions of Rule G-12(c), since the purposes of transaction confirmations are subsumed within the automated comparison process as provided in Rule G-12(f)(i).

[5] As part of the targeted retrospective rule review of dealer regulation, the MSRB's efforts to streamline Rule G-12, to revise or retire interpretive guidance that has been rendered obsolete in the context of modern transaction practices or that otherwise are no longer necessary to promote the accuracy and efficiency of inter-dealer confirmations, and to remove undue dealer burdens are in furtherance of the MSRB's strategic goal of Regulatory Modernization. *See* MSRB Strategic Plan, FY 2026-2030, available at https://www.msrb.org/sites/default/files/2026-05/MSRB_Strategic-Plan-FY26-30.pdf.

As recently approved by the Commission and described in greater detail below, the amendments will implement the following changes to Rule G-12 and underlying interpretive guidance:

- ***Amends the requirements under the rule text*** by codifying principles from interpretive guidance into the rule text and reorganizes the content of Rule G-12(c); removes certain existing requirements from current Rule G-12(c) that no longer serve a beneficial purpose for dealers or the market, and makes technical modifications to the rule requirements that simplify and clarify the existing requirements under Rule G-12(c).
- ***Retires or amends interpretive guidance*** associated with rules pertaining to confirmation requirements (including MSRB Rule G-15, on customer confirmations); retires certain guidance that is being codified or is already codified in current Rule G-12(c) or otherwise addressed under other MSRB rules, including Rule G-15; and amends and retires certain other guidance that is obsolete or no longer serves a beneficial purpose to the market.

Rule Text Amendments

The amended rule organizes informational elements required to be disclosed in a transaction confirmation subject to Rule G-12(c) into three categories, with the first covering securities transaction information, set forth in amended Rule G-12(c)(v)(A), and the second covering securities identification information, set forth in amended Rule G-12(c)(v)(B). Amended Rule G-12(c)(v)(C) adds a third category of securities additional information beyond the information noted under the securities transaction and securities identification category that, in limited circumstances, may be necessary to ensure that the contra parties are in agreement as to the fundamental terms of an inter-dealer transaction and to the identity of the specific security being transacted. The items of information required on an inter-dealer confirmation in these three categories pursuant to the amended Rule G-12(c) are described below.

Rule G-12(c)(v)(A) - Securities Transaction Information

Required Items of Disclosure. The amended rule will require the following securities transaction information to be disclosed:

- The confirming party's name (that is, the name of the dealer producing the confirmation) and its contact information, consisting of address, telephone number or other information providing reasonable means of contacting the confirming party;
- The contra party's identification (that is, the name of the dealer with whom the confirming dealer is engaging in a covered inter-dealer trade);
- Designation of whether the transaction is a purchase from or sale to the contra party;
- Par value of the securities, provided that, in the case of zero coupon securities, the maturity value of the securities must be shown if it differs from the par value;

- Trade date;
- Settlement date except in the case of an initial confirmation for a "when, as and if issued" transaction;
- Yield and dollar price, to the extent required and calculated in the manner described below;
- Amount of concession, if any;[6]
- Final monies (except in the case of initial confirmations for transactions effected on a "when, as and if issued" basis), consisting of:
  - total dollar amount of the transaction;
  - amount of accrued interest, except that accrued interest is not required to be shown for zero coupon securities or securities traded on a discounted basis;
  - if the securities pay interest on a current basis but are traded without interest, a notation of "flat;" and
  - extended principal amount, provided that for securities traded on a discounted basis (other than discounted securities sold on a yield-equivalent basis), total dollar amount of discount may be shown in lieu of the resulting dollar price and extended principal amount; and
- To the extent applicable with regard to delivery of the securities:
  - Denominations thereof for (i) any securities other than bonds (*e.g.*, notes, certificates of participation, etc.) or (ii) bonds denominated other than multiples of $1,000 par value, up to $100,000 par value;[7] and
  - Instructions, if available, regarding receipt or delivery of securities and form of payment, if other than as usual and customary between the parties.

Manner of Displaying and Computing Yield and Dollar Price. The following requirements apply to yield and dollar price computation and display on the confirmation:

- ***Display on Confirmation***
  - For transactions effected on the basis of yield to maturity, yield to call date, or yield to put date, display:
    - The yield at which the transaction was effected, and if that yield is to a call date or put date, this must be noted, along with the date and dollar price of the call or put date; and
    - The dollar price.
  - For transactions that are effected on the basis of a dollar price, display:
    - The dollar price at which the transaction was effected; and

[6] Concession, if any, must be shown per $1000 par value unless stated to be an aggregate figure, provided, however, that for a transaction in securities maturing in two or more years and, at the time of the transaction, paying investment return solely through capital appreciation, the concession, if any, must be expressed as a percentage of the price of the securities.

[7] Thus, the confirmation need not show the denomination for bonds denominated in multiples of $1,000 par value, up to $100,000 par value (*e.g.*, including traditional denominations such as $5,000).

        - The yield, unless the transaction was effected "at par."
    - Special provisions for display of yield and/or dollar price for certain transactions:
        - For variable rate securities, a yield shall not be shown unless the transaction was effected on the basis of yield to put;
        - For securities traded on a discounted basis, a yield shall not be shown; and
        - For transactions effected on a "when, as and if issued" basis, the resulting dollar price shall not be required to be shown in the initial confirmation.

- ***Computation of Yield and Dollar Price***
    - Yield or dollar price must be computed to the lower of call or maturity date and must be computed in accordance with Rule G-33, on calculations.
        - For purposes of computing yield to call or dollar price to call, only those call features that represent "in whole calls" of the type that may be used by the issuer without restriction in a refunding ("pricing calls") may be considered.
    - Special provisions for calculation of yield and/or dollar price for certain transactions:
        - For securities subject to a series of pricing calls at declining premiums, the call date resulting in the lowest yield or dollar price shall be considered the yield to call or dollar price to call;
        - For securities that, at the time of trade, are subject to a notice of a pricing call at any time, the yield to call or dollar price to call shall be computed based upon the assumption that a notice of call may be issued on the day after trade date or on any subsequent date; and
        - For zero coupon securities, the call price shown on the confirmation shall be expressed in terms of a percentage of the security's maturity value.

Rule G-12(c)(v)(B) - Securities Identification Information

Required Items of Disclosure. The amended rule will require inter-dealer confirmations to include the following elements of securities identification information:

- The name of the issuer;[8]
- Maturity date;[9]

[8] In the case of stripped coupon securities, the trade name and series designation assigned to the stripped coupon municipal security by the broker, dealer or municipal securities dealer sponsoring the program must be shown.

[9] In the case of stripped coupon securities, the maturity date of the instrument must be shown in lieu of the maturity date of the underlying securities.

- Interest rate, with special provisions for certain securities;
  - For zero coupon securities, the interest rate must be shown as 0%;
  - For variable rate securities, the interest rate must be shown as "variable;" and
  - For stripped coupon securities, the interest rate actually paid on the instrument must be shown in lieu of the interest rate on the underlying securities.
- A securities identifier, if any, such as a CUSIP number or an alternative securities identifier that is mutually agreed upon between two parties;[10]
- Dated date if it affects the price or interest calculation, and first interest payment date, if other than semi-annual.[11]

Rule G-12(c)(v)(C) - Securities Additional Information

The amended rule requires confirmations to include any additional information needed for the parties to agree on the transaction details and may be helpful in uniquely identifying the securities being transacted, beyond the information required under amended Rule G-12(c)(v)(A) and (B). The MSRB expects this information to be needed only rarely, such as when securities lack a CUSIP number or other identifier, or when an event or feature affects fungibility and requires greater specificity, such as where some event or change to the securities gives rise to the need to distinguish the subject securities from other securities that previously were fully fungible but which have become no longer fungible.[12]

[10] Currently, the MSRB believes that most municipal securities to which the rule amendments will apply are not eligible for CUSIP number assignment. The amended rule permits the use of an alternative securities identifier that would assist parties to the transaction to have assurance that they are each referencing the same security, such as an identifier that may be assigned by a vendor or other entity through which both parties are engaging in key steps of the transaction. Furthermore, if tokenized municipal securities were to be traded on a blockchain and such securities have not been assigned a CUSIP number, any alternative securities identifier incorporated within the mechanics of the blockchain itself could serve as a securities identifier. *See* Filing Notice, 91 FR at 24922, note 38 and accompanying text.

[11] In the case of stripped coupon securities, the date that interest begins accruing to the custodian for payment to the beneficial owner shall be shown in lieu of the dated date of the underlying securities. This date, along with the first date that interest will be paid to the owner, must be stated on the confirmation whenever it is necessary for calculation of price or accrued interest.

[12] For example, where a portion of securities might be secured by funds held in escrow, or may be backed by a personal guarantee, or might have some other feature not known or otherwise accessible to the market that could call into question the fungibility of different portions of such securities, while another portion may not have such backing or such other feature, there may be a need to provide greater specificity to the contra party to ensure that both dealers engaged in an inter-dealer transaction are not mistaken as to the specific securities being transacted. In such circumstances, the dealers may need to include additional information on the confirmation to precisely identify which unique securities are being transacted. *See* Filing Notice, 91 FR at 24922-24923.

Rule G-12(c)(vi) - Definitions

The amended rule adds a new definitions section for the terms "stepped coupon securities," "zero coupon securities," "stripped coupon securities" and "pricing call," all of which are based on existing definitions in MSRB rules and interpretive guidance.

Other Technical Amendments

The amended rule makes technical updates to simplify, clarify, and modernize certain requirements noted under Rule G-12. These updates include revising internal cross-references and removing outdated bearer-bond denomination references since bearer bonds are no longer issued in the primary municipal securities market.

Elimination of Certain Inter-Dealer Confirmation Requirements from the Rule

The amended rule removes certain confirmation requirements that are primarily of a descriptive nature, which are unnecessary to provide a materially complete description for purposes of the modern comparison process, and are neither securities transaction information nor securities identification information.[13]

- Credit backing;
- Features of securities;
- Status of securities; and
- Tax information.

Removing these inter-dealer confirmation requirements does not affect dealers' obligations under other MSRB rules, including any required time-of-trade disclosures under Rule G-47.[14]

Amendment and Retirement of Interpretive Guidance

The MSRB is retiring or amending, as of the effective date, certain interpretive guidance as described below because the amended rule incorporates key confirmation requirements directly into Rule G-12(c) and narrows the scope of the inter-dealer confirmation requirements, making the standalone guidance, in whole or in part, duplicative or obsolete.

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[13] Because trade confirmations are delivered after the time of trade—documenting previously-agreed-upon terms of the trade rather than providing disclosures necessary to inform contra parties at or prior to the time of trade—the need for securities descriptive information in a post-trade inter-dealer confirmation is significantly less than in a customer confirmation involving retail investors, who may value having documented in the customer confirmation some of these material substantive disclosures. *See* Filing Notice, 91 FR at 24923.

[14] *See, e.g.,* MSRB Interpretive Guidance, Time of Trade Disclosures in Inter-Dealer Transactions (March 3, 2025), available at https://www.msrb.org/Rules-and-Interpretive-Guidance/Time-Trade-Disclosures-Inter-Dealer-Transactions.

While the rule amendments revised or deleted certain pieces of guidance that had previously been filed by the MSRB with the Commission, the Approval Notice indicated that the MSRB would publish this regulatory notice that sets forth a list of each item of interpretive guidance that would be amended or retired in connection with the approved rule amendments.[15]

Amended and Streamlined Interpretive Guidance Related to Confirmations

The pieces of interpretive guidance being retained and revised by or in light of the rule amendments continue to provide, as amended, guidance relevant to amended Rule G-12. In the process, such revisions would streamline guidance related to similar customer-confirmation requirements by, among other things, conforming references to current Rule G-15 provisions and including amended Rule G-12 citations, removing obsolete Rule G-12 references and retiring obsolete guidance, and deleting or narrowing portions of guidance that are already codified or are no longer applicable or helpful to the market.[16] None of the revisions create new obligations.

Below is a list of guidance being amended as of the effective date, with the text of the amended interpretive guidance set forth at the end of this notice:[17]

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[15] *See* Approval Notice, 91 FR at 37481, n. 22. The amended or retired guidance described in this notice includes both previously filed guidance that was amended or retired by the rule amendments and other guidance published by the MSRB from time to time relating to inter-dealer confirmation requirements that are being amended or retired as a consequence of the rule amendments or other changes in market practices. As part of its retrospective review of Rule G-12(c), the MSRB sought comment on 40 pieces of interpretive guidance. MSRB Notice 2023-08, Request for Comment on Retrospective Rule Review of Rule G-12(c) on Inter-Dealer Confirmations and Related Interpretive Guidance (Sept. 28, 2023) ("Request for Comment"), available at https://www.msrb.org/sites/default/files/2023-09/2023-08.pdf. This notice discusses, and Appendix A hereto lists, the MSRB's ultimate disposition of these reviewed pieces of interpretive guidance, including five pieces of interpretive guidance that the MSRB reviewed and determined to retain without amendment.

[16] Certain interpretations relate to both Rules G-12 and G-15 and address matters that had previously been incorporated into Rule G-15 but had not yet been incorporated into Rule G-12. With the rule amendments to Rule G-12(c), making the retention of such interpretive guidance no longer necessary, the MSRB is deleting language addressing these matters from certain guidance because the substance of such language is now incorporated into both rules and therefore such language has become duplicative. In other cases, with the narrowing of the scope of Rule G-12 to cover a more limited range of information for inter-dealer confirmations as compared to customer confirmations under Rule G-15, the MSRB is revising certain guidance to apply only to Rule G-15 but not to Rule G-12 to the extent that amended Rule G-12 no longer requires inclusion of the described information.

[17] Certain of these interpretations were previously filed by the MSRB with the Commission and the revisions made thereto pursuant to the rule amendments were approved by the Commission in the Approval Notice, as noted below. The remaining interpretations, representing additional guidance published by the MSRB from time to time relating to MSRB confirmation requirements, are being revised in light of the approved rule amendments.

- Interpretive Guidance, Callable Securities: "Catastrophe" Calls (Nov. 7, 1977);
- Interpretive Guidance, Callable Securities: Pricing to Call (Jun. 8, 1978);
- Interpretive Guidance, Pricing to Call (Dec. 10, 1980);
- Interpretive Guidance, Original Issue Discount, Zero Coupon Securities: Disclosure of, Pricing to Call Feature (Jun. 30, 1982);
- Interpretive Guidance, Callable Securities: Disclosure (Aug. 23, 1982);
- Interpretive Guidance, Securities Description: Securities Backed by Letters of Credit (Dec. 2, 1982);
- Interpretive Guidance, Callable Securities: Extraordinary Mandatory Redemption Features (Feb. 18, 1983);
- Interpretive Guidance, Put Option Bonds: Safekeeping, Pricing (Feb. 18, 1983);
- Interpretive Guidance, Yield Disclosures: Yields to Call on Zero Coupon Bonds (Jan. 4, 1984), as revised by the rule amendments;
- Interpretive Guidance, Callable Securities: Pricing to Call and Extraordinary Mandatory Redemption Features (Feb. 10, 1984);
- Interpretive Guidance, Notice of Interpretation on Escrowed-to-Maturity Securities: Rules G-17, G-12 and G-15 (Sep. 21, 1987), as revised by the rule amendments;
- Interpretive Guidance, Notice Concerning Stripped Coupon Municipal Securities (Mar. 13, 1989), as revised by the rule amendments;
- Interpretive Guidance, Calculation of Price and Yield on Continuously Callable Securities (Aug. 15, 1989), as revised by the rule amendments; and
- Interpretive Guidance, Confirmation Requirements for Partially Refunded Securities (Aug. 15, 1989), as revised by the rule amendments.

Full Retirement of Outdated Interpretive Guidance Related to Confirmation Requirements[18]

The MSRB is retiring certain interpretive guidance due to the fact that the rule amendments incorporate the relevant portions of such guidance into the rule language itself or that the rule amendments or changes in market practices have otherwise made the guidance therein obsolete, duplicative or no longer relevant under amended Rule G-12 and the current Rule G-15 framework. Below is a list of guidance being retired in their entirety as of the effective date, with the text of the amended interpretive guidance set forth at the end of this notice:[19]

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[18] On the effective date, interpretive guidance that has been retired will be removed from the MSRB rulebook and made available on the MSRB Archived Interpretive Guidance webpage, located at https://www.msrb.org/MSRB-Archived-Interpretive-Guidance.

[19] The MSRB previously retired nine pieces of guidance listed in MSRB Notice 2024-07, MSRB to Retire Select Interpretive Guidance Regarding Inter-Dealer Confirmation Disclosures (May 22, 2024), available at https://www.msrb.org/sites/default/files/2024-05/2024-07.pdf, and retired two additional pieces of guidance under MSRB Notice 2024-10, SEC Approves Amendments to Rule G-47 to Add Three New Time of Trade Disclosure Scenarios, Codify and Consolidate Existing Guidance, Delete Certain Guidance, and Make

- Interpretive Guidance, Uniform Practice and Rule G-15 on Customer Confirmations (Nov. 28, 1977);
- Interpretive Guidance, Confirmation Requirements (Mar. 25, 1980);
- Interpretive Guidance, Confirmation Disclosure Requirements Applicable to Variable-Rate Municipal Securities (Dec. 10, 1980);
- Interpretive Guidance, Confirmation Disclosure: Put Option Bonds (Apr. 24, 1981);
- Interpretive Guidance, Notice Concerning "Zero Coupon" and "Stepped Coupon" Securities (Apr. 27, 1982);
- Interpretive Guidance, Securities Description: Revenue Securities (Dec. 1, 1982);
- Interpretive Guidance, Delivery Requirements: Put Option Bonds (Feb. 27, 1985);
- Interpretive Guidance, Notice Concerning the Application of Board Rules to Put Option Bonds (Sep. 30, 1985);
- Interpretive Guidance, Confirmation Disclosure Requirements for Callable Municipal Securities (Feb. 20, 1986), as retired in whole by the rule amendments;
- Interpretive Guidance, Calculations for Securities with Periodic Interest Payments (Feb. 23, 2016)

Questions concerning this filing may be directed to Ernesto Lanza, Chief Regulatory Policy Officer, Market Regulation or Abha Mohla, Director, Market Regulation, at (202) 838-1500.

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Text of Amendments*

Rule G-12: Uniform Practice

(a)–(b) No change.

(c) *Dealer Confirmations*. All municipal securities transactions that are ineligible for automated comparison in a system operated by a registered clearing agency shall be subject to the provisions of this section (c).

(i)–(iv) No change.

(v) Each confirmation shall contain the following information:

<u>(A) Securities Transaction Information. The confirmation shall include information regarding the terms of the transaction as set forth in this subparagraph (A):</u>

Technical Amendments (July 12, 2024), available at https://www.msrb.org/sites/default/files/2024-07/2024-10.pdf.

* Underlining indicates new language; strikethrough denotes deletions.

(1)~~(A)~~ confirming party's name, including address, ~~and~~ telephone number or other information providing reasonable means of contacting the confirming party;

(2)~~(B)~~ "contra party" identification;

(3)~~(C)~~ designation of purchase from or sale to;

(4)~~(D)~~ Par Value. The par value of the securities shall be shown. For zero coupon securities, the maturity value of the securities must be shown if it differs from the par value;

~~(E) description of the securities, including at a minimum the name of the issuer, interest rate, maturity date, and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities and in the case of any securities, if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service or, if there is more than one such obligor, the statement "multiple obligors" may be shown;~~

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

(5)~~(G)~~ trade date;

(6)~~(H)~~ settlement date shall be noted on all confirmations with the exception of initial confirmation for a "when, as and if issued" transaction;

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

(7) Yield and dollar price. Yields and dollar prices shall be computed and shown in the following manner, subject to the exceptions stated in subparagraph (A)(7)(d) of this paragraph:

(a) For transactions that are effected on the basis of a yield to maturity, yield to a call date, or yield to a put date:

(i) The yield at which the transaction was effected shall be shown and, if that yield is to a call date or to a put date, this shall be noted, along with the date and dollar price of the call or put date.

(ii) A dollar price shall be computed and shown in accordance with the rules in subparagraph (A)(7)(c) of this paragraph.

(b) For transactions that are effected on the basis of a dollar price:

(i) The dollar price at which the transaction was effected shall be shown.

(ii) A yield shall be computed and shown in accordance with subparagraph (A)(7)(c) of this paragraph, unless the transaction was effected at "par."

(c) In computing yield and dollar price, the following rules shall be observed:

(i) The yield or dollar price computed and shown shall be computed to the lower of call or maturity date, with the exceptions noted in subparagraph (A)(7)(d) of this paragraph.

(ii) For purposes of computing yield to call or dollar price to call, only those call features that represent "in whole calls" of the type that may be used by the issuer without restriction in a refunding ("pricing calls") shall be considered in computations made under subparagraph (A)(7) of this paragraph.

(iii) With respect to the following specific situations, these additional rules shall be observed:

(A) Declining premium calls. For those securities subject to a series of pricing calls at declining premiums, the call date resulting in the lowest yield or dollar price shall be considered the yield to call or dollar price to call.

(B) Continuously callable securities. For those securities that, at the time of trade, are subject to a notice of a pricing call at any time, the yield to call or dollar price to call shall be computed based upon the assumption that a notice of call may be issued on the day after trade date or on any subsequent date.

(C) Zero coupon securities. For zero coupon securities, the call price shown on the confirmation shall be expressed in terms of a percentage of the security's maturity value.

(iv) Computations shall be made in accordance with the requirements of Rule G-33.

(d) Notwithstanding the requirements noted in subparagraph (A)(7)(a) through (c) of this paragraph above:

(i) Variable rate securities. For municipal securities with a variable interest rate, a yield shall not be shown unless the transaction was effected on the basis of yield to put.

(ii) Securities traded on a discounted basis. For securities traded on a discounted basis, a yield shall not be shown.

(iii) "When, as and if issued" basis. For transactions effected on a "when, as and if issued" basis, the resulting dollar price shall not be required to be shown in the initial confirmation.

~~(J)~~(8) amount of concession, if any, per $1000 par value unless stated to be an aggregate figure, *provided, however*, that for a transaction in securities maturing in two or more years and, at the time of the transaction, paying investment return solely through capital appreciation, the concession, if any, shall be expressed as a percentage of the price of these securities;

(9) Final monies. The following information relating to the calculation and display of final monies shall be shown on all confirmations except for initial confirmations for transactions effected on a "when, as and if issued" basis:

(a) total dollar amount of transaction;

(b) amount of accrued interest, with special requirements for the following securities:

(i) Zero coupon securities. For zero coupon securities, no figure for accrued interest shall be shown;

(ii) Securities traded on a discounted basis. For securities traded on a discounted basis (other than discounted securities traded on a yield-equivalent basis), no figure for accrued interest shall be shown;

(c) if the securities pay interest on a current basis but are traded without interest, a notation of "flat;"

(d) extended principal amount, provided that for securities traded on a discounted basis (other than discounted securities sold on a yield-equivalent basis), total dollar amount of discount may be shown in lieu of the resulting dollar price and extended principal amount;

(10) Delivery of securities. The following information regarding the delivery of securities shall be shown:

(a) Denominations of securities other than bonds, and, in the case of bonds, denominations other than those specified in paragraph (v) of section (e) hereof;

(b) Delivery instructions. Instructions, if available, regarding receipt or delivery of securities and form of payment, if other than as usual and customary between the parties.

(B) Securities Identification Information. The confirmation shall include a securities identification which includes, at a minimum:

(1) the name of the issuer, and for stripped coupon securities, the trade name and series designation assigned to the stripped coupon municipal security by the broker, dealer or municipal securities dealer sponsoring the program must be shown;

(2) maturity date, if any, and for stripped coupon securities, the maturity date of the instrument must be shown in lieu of the maturity date of the underlying securities;

(3) interest rate, if any, with special requirements for the following securities:

(a) Zero coupon securities. For zero coupon securities, the interest rate must be shown as 0%;

(b) Variable rate securities. For securities with a variable or floating interest rate, the interest rate must be shown as "variable;"

(c) Stripped coupon securities. For stripped coupon securities, the interest rate actually paid on the instrument must be shown in lieu of the interest rate on the underlying securities;

(4) A securities identifier, if any, such as a CUSIP number or an alternative securities identifier that is mutually agreed upon between two parties;

(5) dated date if it affects the price or interest calculation, and first interest payment date, if other than semi-annual, with special requirements for the following securities:

(a) Stripped coupon securities. For stripped coupon securities, the date that interest begins accruing to the custodian for payment to the beneficial owner shall be shown in lieu of the dated date of the underlying securities. This date, along with the first date that interest will be paid to the owner, must be stated on the confirmation whenever it is necessary for calculation of price or accrued interest.

(C) Securities Additional Information. In addition to the information as required pursuant to subparagraph (A)-(B) of this paragraph, such other information that may be necessary to ensure that the parties agree to the details of the transaction and to the identity of the specific security being transacted also shall be shown.

(vi) Definitions. For purposes of this rule, the following terms shall have the following meanings:

(A) Stepped coupon securities. The term "stepped coupon securities" shall mean securities with the interest rate periodically changing on a pre-established schedule.

(B) Zero coupon securities. The term "zero coupon securities" shall mean securities maturing in more than two years and paying investment return solely at redemption.

(C) Stripped coupon securities. The term "stripped coupon securities" shall have the same meaning as in SEC staff letter dated January 19, 1989 (Stripped Coupon Municipal Securities, SEC No-Action Letter, Fed. Sec. L. Rep. (CCH) ¶ 78,949 (Jan. 19, 1989)), reprinted in MSRB Reports, Vol. 9, No. 1 (March 1989) at 6-7.

(D) The term “pricing call” shall mean a call feature that represents “an in whole call” of the type that may be used by the issuer without restriction in a refunding.

~~(K) amount of accrued interest;~~

~~(L) extended principal amount;~~

~~(M) total dollar amount of transaction; and~~

~~(N) instructions, if available, regarding receipt or delivery of securities, and form of payment if other than as usual and customary between the parties.~~

~~The confirmation for a transaction in securities traded on a discounted basis (other than discounted securities traded on a yield-equivalent basis) shall not be required to show the pricing information specified in subparagraph (I) nor the accrued interest specified in subparagraph (K). Such information shall, however, contain the rate of discount and resulting dollar price. Such confirmation may, in lieu of the resulting dollar price and the extended principal amount specified in subparagraph (L), show the total dollar amount of the discount.~~

~~The confirmation for a transaction in securities maturing in more than two years and paying investment return solely at redemption shall not show the par value of the securities specified in subparagraph (D) and shall not be required to show the amount of accrued interest specified in subparagraph (K). Such confirmation shall, however, show the maturity value of the securities and specify that the interest rate on the securities is "0%."~~

~~The initial confirmation for a "when, as and if issued" transaction shall not be required to contain the information specified in subparagraphs (H), (K), (L), and (M) of this paragraph or the resulting dollar price as specified in subparagraph (I).~~

~~(vi) In addition to the information required by paragraph (v) above, each confirmation shall contain the following information, if applicable:~~

~~(A) dated date if it affects the price or interest calculation, and first interest payment date, if other than semi-annual;~~

~~(B) if the securities are available only in book-entry form, a designation to such effect;~~

~~(C) if the securities are identified by the issuer or sold by the underwriter as subject to federal taxation, a designation to that effect;~~

~~(D) if the interest on the securities is identified by the issuer or the underwriter as subject to the alternative minimum tax, a designation to that effect;~~

~~(E) if the securities are "called" or "pre-refunded," a designation to such effect, the date of maturity which has been fixed by the call notice, and the amount of the call price;~~

~~(F) denominations of securities other than bonds, and, in the case of bonds, denominations other than those specified in paragraph (e)(v) hereof;~~

~~(G) if the securities pay periodic interest and are sold by the underwriter as original issue discount securities, a designation that they are "original issue discount" securities;~~

~~(H) any special instructions or qualifications, or factors affecting payment of principal or interest, such as (1) "ex legal," or (2) if the securities are traded without interest, "flat," or (3) if the securities are in default as to the payment of interest or principal, "in default," or (4) with respect to securities with periodic interest payments, if such securities pay interest on other than a semi-annual basis, a statement of the basis on which interest is paid; and~~

~~(I) such other information as may be necessary to ensure that the parties agree to the details of the transaction.~~

(d) No change.

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

(i) No change.

(ii) *Securities Delivered*.

(A) All securities delivered on a transaction shall be identical as to the information set forth in <u>subparagraph (v)(B) of section (c) of this rule.</u> ~~subparagraph (E) of paragraph (c)(v) and, to the extent applicable, the information set forth in subparagraphs (A) and (E) of paragraph (c)(vi). All securities delivered shall also be identical as to the call provisions and the dated date of such securities.~~

(B) *CUSIP Numbers*.

(1) ~~The securities delivered on a transaction shall have the same CUSIP number as that set forth on the confirmation of such transaction pursuant to the requirements of subparagraph (c)(v)(F) of this rule; *provided, however*, that, for~~ <u>For</u> purposes of <u>subparagraph (ii)(A) of section (e) of this rule</u> ~~this item (1)~~, a security shall be deemed to have the same CUSIP number as that specified on the confirmation (a) if the number assigned to the security and the number specified on the confirmation differ only as a result of a transposition or other transcription error, or (b) if the number specified on the confirmation has been assigned as a substitute or alternative number for the number reflected on the security.

(2) A new issue security delivered by an underwriter who is subject to the provisions of rule G-34 shall have the CUSIP number assigned to the security imprinted on or otherwise affixed to the security.

(iii) *Delivery Ticket*. A delivery ticket shall accompany the delivery of securities. Such ticket shall contain the information set forth in ~~subparagraphs (A), (B), (D) (except in the case of transactions in zero coupon, compound interest and multiplier securities,~~

~~in which case the maturity value shall be shown), (E) through (H), (M) and (N) of~~ paragraph (v) of section (c) of this rule except a delivery ticket may omit ~~and, to the extent applicable,~~ the information set forth in items (3), (7), (8) and clauses (b) and (d) of item (9) ~~subparagraphs (A) through (I)~~ of subparagraph (c)(v)(A) thereof ~~(c)(vi)~~ and shall have attached to it an extra copy of the ticket which may be used to acknowledge receipt of the securities.

(iv) No change.

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

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

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

(B) Delivery of other municipal securities shall be made in the denominations specified on the confirmation as required pursuant to paragraph ~~(c)(vi)~~ (v)(A)(10) of section (c) of this rule except that deliveries of notes may be made in denominations smaller than those specified if the notes delivered can be aggregated to constitute the denominations specified.

(vi)–(xvi) No change.

(f) No change.

(g) *Rejections and Reclamations*.

(i)–(ii) No change.

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

(A)–(B) No change.

(C) reclamation or demand for reclamation by reason of the following shall be made within 18 months following the date of delivery:

(1)–(2) No change.

(3) information pertaining to the description of the securities was inaccurate for either of the following reasons:

(i) information required by ~~subparagraph (c)(v)(E)~~ paragraph (v)(B)(1)-(3) of section (c) of this rule was omitted or erroneously noted on a confirmation, or

(ii) information material to the transaction but not required by ~~subparagraph (c)(v)(E)~~ paragraph (v)(B)(1)-(3) of section (c) of this rule was erroneously noted on a confirmation.

(D) No change.

(iv)–(vi) No change.

(h)–(k) No change.

* * * * *

Interpretive Guidance

Amended and Streamlined Interpretive Guidance Related to Confirmations

Callable Securities: "Catastrophe" Calls (Nov. 07, 1977)

~~Callable securities: "catastrophe" calls. This will acknowledge receipt of your letter dated October 20, 1977 which has been referred to me for reply. In your letter you request an interpretation of the provisions in rules G-12 and G-15 requiring that the dollar price for transactions in callable securities effected on a yield basis be priced to the lower of price to call or price to maturity. (*See* rules G-12(c)(v)(I) and G-15(a)(viii))[*].~~

~~At its meeting held October 25-26, 1977, the Board confirmed that t~~The requirements in rules G-12 and G-15 relating to pricing to call do not include "catastrophe" calls, that is, calls which occur as a result of events specified in the bond indenture which are beyond the control of the issuer.

* * * * *

Callable Securities: Pricing to Call (Jun. 08, 1978)

~~Your letter dated May 1, 1978 concerning the pricing to call provisions of rules G-12 and G-15 has been referred to me for response.~~ In your letter, you request clarification of the application of such provisions to a situation in which securities have been prerefunded and the escrow fund is to be held to the maturity date of the securities. We understand that the securities in question are part of a term issue, sold on a yield basis, and are subject to a mandatory sinking fund call beginning two years prior to maturity.

Under rule~~s G-12 and~~ G-15, the dollar price of a transaction effected on a yield basis must be calculated to the lowest of price to premium call price to par option or price to maturity. The calculation of dollar price to a premium call or par option date should be to that date at which the issuer may exercise an option to call the whole of a particular issue or, in the case of serial bonds, a particular maturity, and not to the date of a call in part.

Accordingly, the calculation of the dollar price of a transaction in the securities in your example should be made to the maturity date. The existence of the sinking fund call should, however, be disclosed on the confirmation by an indication that the securities are "callable." The fact that the securities are prerefunded should also be noted on the confirmation. *MSRB interpretation of June 8, 1978.*

* * * * *

Pricing to Call (Dec. 10, 1980)

Board rules G-12 on uniform practice and G-15 on customer confirmations set forth certain requirements concerning the computations of yields and dollar prices to premium call or par option features. ~~Both rules currently require that, in the case of a transaction in callable securities effected on the basis of a yield price, the dollar price should be calculated to the lowest of the price to premium call, price to par option, or price to maturity. Further, confirmations of transactions on which the dollar price has been computed to a call or option feature must state the call date and price used in the computation. Amendments to rule G-15 which will become effective on October 1, 1981, generally require that confirmations of transactions in callable securities effected at a dollar price in excess of par must set forth the lowest of the yield to premium call, yield to par option, or yield to maturity resulting from such dollar price.[1]~~

~~Since the December 1977 effective dates of rule G-12 and G-15, the Board has received numerous inquiries concerning these provisions and their application to different issues of~~

~~municipal securities. In view of the general interest in this subject, the Board is issuing this notice to provide guidance with respect to the general criteria to be used in selecting the appropriate call feature for yield or dollar price computations.~~

~~The requirement for the computation of dollar price to the lowest of price to premium call, par option, or maturity reflects the long-established practice of the industry in pricing transactions. This practice assures a customer that he or she will realize, at a minimum, the stated yield, even in the event that a call provision is exercised. The pending amendment to rule G-15, which requires the presentation of information concerning the lowest yield on confirmations of dollar price transactions, will provide investors with the equivalent information on these types of transactions.~~

In view of the variety of call provisions applicable to different kinds of municipal securities, there is often uncertainty concerning the selection of the appropriate call feature for use in the computation of yield or dollar price. Issues of municipal securities often have several different call features, ranging from calls associated with mandatory sinking fund requirements to optional calls from the proceeds of a refunding or funds in excess of debt service requirements. Certain issues have additional call provisions in the event that funds designated for specific purposes are not expended or obligations securing the issue are prepaid.[1] Most of the inquiries which the Board has received concerning the provisions of rules G-12 and G-15 focus on this question of selection of the call provisions to be used for computation purposes.

The Board is of the view that a distinction should be drawn between "in whole" call provisions, (*i.e.*, those under which all outstanding securities of a particular issue may be called) and "in part" call provisions (*i.e.*, those under which part of an issue, usually selected by lot or in inverse maturity or numerical order, may be called for redemption). The Board is of the view that for computation purposes only "in whole" calls should be used; sinking fund calls and other "in part" calls should not be used in making the computations required by rules G-12 and G-15.

Several inquiries have raised the question of which "in whole" call should be used in the case of issues which have more than one such call. The earlier call features of such issues are often subject to restrictions on the proceeds which may be used to redeem securities (*e.g.*, a restriction that only unexpended funds from the original issue may be used for redemption purposes). Since such call features operate as a practical matter as "in part" calls, the Board is of the view that the "in whole" call feature which would be exercised in the event of a refunding is the call feature which should generally be used for purposes of the computation of yields and dollar prices.

~~Other concerned persons have inquired regarding the application of the "pricing to call" requirements in the case of an issue with a sequence of call dates at gradually declining premiums. The Board believes that, as a general matter, a trial computation to the first date on which a security is callable "in whole" at a premium will be sufficient to determine whether the price to the premium call is the lowest dollar price. However, in the rare instance where the price to an intermediate premium call (*i.e.*, a call in the "middle" of a sequence of calls at declining premiums) is the lowest dollar price, such price should be used. The Board notes that, in such cases, the structure of the call schedule is sufficiently unusual (*e.g.*, with sharp declines in the premium amount over a very short period of time) that dealers should be alerted to the need to take the intermediate calls into consideration.~~

~~[1] Effective December 1, 1980, customer confirmations of transactions in callable securities effected at a dollar price less than par must set forth the yield to maturity resulting from such dollar price. Confirmations of dollar-price transactions in non-callable securities, or securities which have been called or prerefunded, must set forth the resulting yield to maturity (or to the date for redemption of the securities, in the case of called or prerefunded securities).~~

[1] Other issues are also callable in the event that the financed project is damaged or destroyed, or the tax exempt status of the issue is revoked. Since the possibility of such a call being exercised is extremely remote, and beyond the control of the issuer of the securities, the Board does not believe that these "catastrophe" calls need be considered for computation purposes.

* * * * *

Original Issue Discount, Zero Coupon Securities: Disclosure of, Pricing to Call Feature (Jun. 30, 1982)

~~Original issue discount, zero coupon securities: disclosure of, pricing to call feature. I am writing in response to your inquiry in our recent telephone conversation regarding the application of Board rules to the recent original issue discount on "zero coupon" new issues of municipal securities. In particular, you indicated that these types of securities are often subject to somewhat unusual call provisions, and you inquired as to the application to these types of securities of Board rules concerning the disclosure of call provisions and the use of such call provisions in dollar price and yield computations.~~

~~Subsequent to our conversation, I obtained several examples of these call provisions, which were provided to the Board in connection with your inquiry. In the first of these examples, involving an original issue discount security, the call provision commences ten years after issuance, with the redemption price initially set at 90 and increasing by 2 points~~

~~every three years, reaching a redemption price of 100 twenty-five years after issuance. In the second example, involving a "zero coupon" security, the call provision commences ten years after issuance; the redemption price is based on the compound accreted value of the security (plus a stated redemption premium for the first five years of the call provision), with certain of the securities initially redeemable at an approximate dollar price of 18.~~

~~As you know, the call provisions on "zero coupon" and original issue discount securities are one of the special characteristics of such securities, but are not, by any means, the sole special characteristic. The Board is of the view that municipal securities brokers and dealers selling such securities are obliged, under Board rule G-17 as well as under the anti-fraud rules under the Securities Exchange Act, to disclose to customers all material information regarding such special characteristics. As the Board stated in its April 27, 1982 "Notice Concerning 'Zero Coupon' and 'Stepped Coupon' Securities,"~~

~~persons selling such securities to the public have an obligation to adequately disclose the special characteristics of such securities so as to comply with the Board's fair practice rules.~~

~~Therefore, in selling an original issue discount or "zero coupon" security to a customer, a dealer would be obliged to disclose, among other matters, any material information with respect to the call provisions of such securities.~~

~~I note also that Rule G-15 requires customer confirmations of transactions in callable securities to indicate that the securities are "callable," and to contain a legend stating, in part, that information concerning the call provisions of such securities will be made available upon the customer's request. Customer confirmations of transactions in callable original issue discount or "zero coupon" securities would have to contain such a legend, in addition to the designation "callable," and the details of the call provisions of such securities would have to be provided to the customer in writing upon the customer's request.~~

The requirement under rules G-12 and G-15 for the computation of dollar price and ~~(under Rule G-15)~~ yield to ~~a~~ call ~~or option feature~~ would apply to a transaction in an original issue discount or "zero coupon" security. Therefore, if the dollar price to the call on a transaction in such securities is lower than the price to maturity, such dollar price should be used. In the case of customer confirmations, if the yield to call on a transaction in such securities is lower, such yield must be shown. As you noted in our conversation, in view of the redemption price structure of the call provisions on such securities, the price or yield to call on a particular transaction might be lower than the price or yield to maturity, even though the transaction is effected at a price below par. Since heretofore the industry has been accustomed to call provisions at prices at or above par, industry members may wish to pay particular attention to the processing of transactions in original issue discount or "zero coupon" securities with these unusual types of call provisions, to ensure that the dollar price or yield of such transactions is not inadvertently overstated due to a failure to check the price or yield to call.

* * * * *

Callable Securities: Disclosure Regarding In-Part Sinking Fund (Aug. 23, 1982)

I am writing in response to your letter of August 17, 1982, concerning the requirements of Board rule~~s G-12(c)(v)(E) and~~ G-15(a)~~(v)[*]~~ concerning securities descriptions set forth on confirmations. ~~In your letter you note that certain descriptive details are required to be disclosed on the confirmation only "if necessary for a materially complete description of the securities," and you inquire whether information as to a security's callability is one of these details.~~

~~Rules G-12(c)(v)(E) and G-15(a)(v)[*] require confirmations to set forth a~~

~~description of the securities, including at a minimum the name of the issuer, interest rate, maturity date, and if the securities are limited tax, subject to redemption prior to maturity (callable) or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities, and in the case of any securities, if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service or, if there is more than one such obligor, the statement 'multiple obligators' may be shown." (emphasis added)~~

~~As you can see, the phrase "if necessary for a materially complete description of the securities" modifies only the requirements for disclosure of "the type of revenue," or ... disclosure of "the name of any company or other person obligated ... with respect to debt service...," and does not modify the requirements for disclosure of the other listed information. Both rules, therefore, deem information as to the "name of the issuer, interest rate, maturity date and if the securities are limited tax, subject to redemption prior to maturity (callable) or revenue bonds" to be necessarily material and subject to disclosure on the confirmation.~~ In the specific case which you cite, that of a security with an "in-part" sinking fund call feature, for purposes of G-15(a)(i)(B) and G-15(a)(i)(C), the confirmation of a transaction in such security would be required to identify the security as "callable."

~~[*] [Currently codified at rules G-15(a)(i)(B) and G-15(a)(i)(C)]~~

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Securities Description: Securities Backed by Letters of Credit (Dec. 02, 1982)

~~Securities description: securities backed by letters of credit. I am writing in connection with our previous telephone conversation of last June regarding the confirmation of a transaction in a municipal issue secured by an irrevocable letter of credit issued by a bank. In our conversation you noted that both rules G-12 and G-15 require confirmations to contain a:~~

~~description of the securities including at a minimum..., if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service...~~

You inquired whether the name of the bank issuing a letter of credit securing principal and interest payments on an issue, or securing payments under the exercise of a put option or tender option feature, need be stated on the confirmation under Rule G-15.

At that time I indicated to you that the identity of the bank issuing the letter of credit would have to be disclosed on the confirmation if the letter of credit could be drawn upon to cover scheduled interest and principal payments when due, since the bank would be "obligated ... with respect to debt service." I am writing to advise that the committee of the Board which reviewed a memorandum of our conversation has concluded that a bank issuing a letter of credit which secures a put option or tender option feature on an issue is similarly "obligated ... with respect to debt service" on such issue. The identity of the bank issuing the letter of credit securing the put option must therefore also be indicated on the confirmation. *MSRB interpretation of December 2, 1982.*

* * * * *

Callable Securities: Extraordinary Mandatory Redemption Features (Feb. 18, 1983)

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

An extraordinary mandatory redemption feature, in my understanding, is a call provision under which an issuer of securities would be obliged to call all or a part of an issue if certain stated unexpected events occur. For example, many of the recent mortgage revenue issues have extraordinary mandatory redemption provisions under which securities would be called if a portion of the proceeds of the issue has not been used to acquire mortgages by a certain stated date, or if moneys received from principal prepayments have not been used to acquire new mortgages by a certain period following receipt of the prepayment. ~~In general~~ For purposes of customer confirmations under Rule G-15(a), securities which are subject to extraordinary mandatory redemption provisions must be identified as "callable" securities on any confirmation. Extraordinary redemption provisions would not, however, be used for purposes of computing a yield or dollar price.

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

In summary, therefore, securities which are subject to extraordinary mandatory redemption provisions other than "catastrophe" call provisions must be identified as "callable" securities on customer confirmations. *MSRB interpretation of February 18, 1983.*

* * * * *

Put Option Bonds: Safekeeping, Pricing (Feb. 18, 1983)

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

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

~~Both rules G-12(c) and G-15, applicable to inter-dealer and customer confirmations respectively, require that confirmations of transactions in securities which are subject to put option or tender option features must indicate that fact (*e.g.,* through inclusion of the designation "puttable" on the confirmation). the date on which the put option feature first comes into effect need be stated on the confirmation only if the transaction is effected on a yield basis and the parties to the transaction specifically agree that the transaction dollar price should be computed to that date. In the absence of such an agreement, the put date need not be stated on the confirmation, and any yield disclosed should be a yield to maturity.~~

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

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

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

* * * * *

Yield Disclosures: Yields to Call on Zero Coupon Bonds (Jan. 04, 1984)

… [C]all features on … [zero coupon, compound interest, multiplier, or other similar type of security] often express the call prices in terms of a percentage of the compound accreted value of the security as of the call date. You note that, in computing a price or yield to such a call feature, it is necessary for the computing dealer to convert such a call price into its equivalent in terms of a percentage of maturity value (i.e., into a standard dollar price), and use this figure in the computation. You inquire whether, in circumstances where the confirmation of a transaction is required to disclose a yield or dollar price computed to such a call feature, the call price used in the calculation should be stated on the confirmation in terms of the percentage of the compound accreted value or in terms of the equivalent percentage of maturity value.

The requirement which is the subject of your inquiry is set forth in Board rule G-15(a)(i)(A)(5)~~G-15(a)(i)(I) as follows:~~

> ~~In cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, this must be stated, and the call or option date and price used in the calculation must be shown...~~[*]

The Board is of the view that, in the case of a computation of a yield or dollar price to a call or option feature on a transaction in a zero coupon or similar security, the call price shown on the confirmation should be expressed in terms of a percentage of the security's maturity value. The Board believes that the disclosure of the call price in terms of the security's maturity value would provide more meaningful information to the purchaser, since other confirmation disclosures on these types of securities are also expressed in terms of the security's maturity value. This form of disclosure therefore presents the information to a purchaser in a consistent format, thereby facilitating the purchaser's understanding of the information shown on the confirmation. The Board notes also that this form of disclosure is simpler and requires less confirmation space to present.

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* Comparable requirements with respect to inter-dealer confirmations are set forth in Board rule G-12(c)(v)(A)(7). ~~G-12(c)(v)(I).~~

* * * * *

Callable Securities: Pricing to Call and Extraordinary Mandatory Redemption Features (Feb. 10, 1984)

This is in response to your November 16, 1983, letter concerning the application of the Board's rules to sales of municipal securities that are subject to extraordinary redemption features.

~~As a general matter, rule G-17 of the Board's rules of fair practice requires municipal securities brokers and dealers to deal fairly with all persons and prohibits them from engaging in any deceptive, dishonest, or unfair practice. The Board has interpreted this rule to require, in connection with the purchase from or sale of a municipal security to a customer, that a dealer must disclose, at or before the time the transaction occurs, all material facts concerning the transaction and not omit any material facts which would render other statements misleading.~~ The fact that a security may be redeemed "in whole," "in part," or in extraordinary circumstances prior to maturity is essential to a customer's investment decision about the security and is one of the facts a dealer must disclose prior to the transaction. It should be noted that the Board has determined that certain items of information must, because of their materiality, be disclosed on confirmations of transactions. However, a confirmation is not received by a customer until after a transaction is effected and is not meant to take the place of oral disclosure prior to the time the trade occurs.

~~You ask whether, for an issue which has more than one call feature, the disclosure requirements of MSRB rule G-15 would be better served by merely stating on the confirmation that the bonds are callable, instead of disclosing the terms of one call feature and not another. Board rule G-15, among other things, prescribes what items of information must be disclosed on confirmations of transactions with customers.[1] Rule G-15(a)(i)(E)[*] requires that customer confirmations contain a materially complete description of the securities and specifically identifies the fact that securities are subject to redemption prior to maturity as one item that must be specified. The Board is of the view that the fact that a security may be subject to an "in whole" or "in part" call is a material fact for an individual making an investment decision about the securities and has further required in rule G-15a(iii)(D)[†] that confirmations of transactions in callable securities must state that the resulting yield may be affected by the exercise of a call provision, and that information relating to call provisions is available upon request.[2]~~

~~With respect to the computation of yields and dollar prices, rule G-15(a)(i)(I)[‡] requires that the yield and dollar price for the transaction be disclosed as the price (if the transaction is done on a yield basis) or yield (if the transaction is done on the basis of a dollar price) calculated to the lowest price or yield to call, to par option, or to maturity. The provision also requires, in cases in which the resulting dollar price or yield shown on the confirmation is~~

~~calculated to call or par option, that this must be stated and the call or option date and price used in the calculation must be shown. The Board has determined that, for purposes of making this computation, only "in whole" calls should be used.[3] This requirement reflects the longstanding practice of the municipal securities industry and advises a purchaser what amount of return he can expect to realize from the investment and the terms under which such return would be realized.~~

You also ask whether it is reasonable to infer from the discharge of one call feature that no other call features exist. As discussed above, the Board requires a customer confirmation to disclose, when applicable, that a security is subject to redemption prior to maturity and that the call feature may affect the security's yield. This requirement applies to securities subject to either "in whole" or "in part" calls. Moreover, as noted earlier, because information concerning call features is material information, principles ~~of fair dealing~~ embodied by rule ~~G-17~~ G-47 require that these details be disclosed orally at the time of trade.

~~By contrast, identification of the first "in-whole" call date and its price must be made only when they are used to compute the yield or resulting dollar price for a transaction. This disclosure is designed only to advise an investor what information was used in computing the lowest of yield or price to call, to par option, or to maturity and is not meant to describe the only call features of the municipal security.~~

~~In addition, in the case of the sale of new issue securities during the underwriting period, Board rule G-32 requires that ... a copy of the final official statement, if any, must be provided to the customer.[4] While the official statement would describe all call features of an issue, it must be emphasized that delivery of this document does not relieve a dealer of its obligation to advise a customer of material characteristics and facts concerning the security at the time of trade.~~

~~Finally, you ask whether the omission of this or other call features on the confirmation is a material omission of the kind which would be actionable under SEC rule 10b-5. The Board is not empowered to interpret the Securities Exchange Act or rules thereunder; that responsibility has been delegated to the Securities and Exchange Commission. We note, however, that the failure to disclose the existence of a call feature would violate rule G-15 and, in egregious situations, also may violate rule G-17, the Board's fair dealing rule.~~ *MSRB interpretation of February 10 1984.*

~~[1] Similar requirements are specified in rule G-12 for confirmations of inter-dealer transactions.~~

~~[2] The rule states that this requirement will be satisfied by placing in footnote or otherwise the statement:~~

~~"[Additional] call features ... exist [that may] affect yield; complete information will be provided upon request."~~

~~[3] *See* [Rule G-15 Interpretation - Notice concerning pricing to call], December 10, 1980 ... at ¶ 3571.~~

~~[4] The term underwriting period is defined in rule G-11 as:~~

~~the period commencing with the first submission to a syndicate of an order for the purchase of new issue municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending at such time as the issuer delivers the securities to the syndicate or the syndicate no longer retains an unsold balance of securities, whichever last occurs.~~

~~[*] [Currently codified at rule G-15(a)(i)(C)]~~

~~[†] [Currently codified at rule G-15(a)(i)(C)(2)(a)]~~

~~[‡] [Currently codified at rule G-15(a)(i)(A)(5)]~~

~~NOTE: Revised to reflect subsequent amendments.~~

* * * * *

Notice of Interpretation on Escrowed-to-Maturity Securities: Rules G-17~~, G-12 and G-15~~ (Sep. 21, 1987)

~~Introduction~~

~~The Board is concerned that the market for escrowed-to-maturity securities has been disrupted by uncertainty whether these securities may be called pursuant to optional redemption provisions. Accordingly, the Board has issued the following interpretations of rule G-17, on fair dealing, and rules G-12(c) and G-15(a), on confirmation disclosure, concerning escrowed-to-maturity securities. The interpretations are effective immediately.~~

Background

Traditionally, the term escrowed-to-maturity has meant that such securities are not subject to optional redemption prior to maturity. Investors and market professionals have relied on this understanding in their purchases and sales of such securities. Recently, certain issuers have attempted to call escrowed-to-maturity securities. As a result, investors and market professionals considering transactions in escrowed-to-maturity securities must review the documents for the original issue, for any refunding issues, as well as the escrow agreement and state law, to determine whether any optional redemption provisions apply. In addition, the Board understands that there is uncertainty as to the fair market price of such securities which may cause harm to investors.

On March 17, 1987, the Board sent letters to the Public Securities Association, the Government Finance Officers Association and the National Association of Bond Lawyers expressing its concern. The Board stated that it is essential that issuers, when applicable, expressly note in official statements and defeasance notices relating to escrowed-to-maturity securities whether they have reserved the right to call such securities. It stated that the absence of such express disclosure would raise concerns whether the issuer's disclosure documents adequately explain the material features of the issue and would severely damage investor confidence in the municipal securities market. Although the Board has no rulemaking authority over issuers, it advised brokers, dealers and municipal securities dealers ("dealers") that assist issuers in preparing disclosure documents for escrowed-to-maturity securities to alert these issuers of the need to disclose whether they have reserved the right to call the securities since such information is material to a customer's investment decision about the securities and to the efficient trading of such securities.

Application of Rule G-17 on Fair Dealing

In the intervening months since the Board's letter, the Board has continued to receive inquiries from market participants concerning the callability of escrowed-to-maturity securities. Apparently, some dealers now are describing all escrowed-to-maturity securities as callable and there is confusion how to price such securities. In order to avoid confusion with respect to issues that might be escrowed-to-maturity in the future, the Board is interpreting rule G-17, on fair dealing,[1] to require that municipal securities dealers that assist in the preparation of refunding documents as underwriters or financial advisors alert issuers of the materiality of information relating to the callability of escrowed-to-maturity securities. Accordingly, such dealers must recommend that issuers clearly state when the refunded securities will be redeemed and whether the issuer reserves the option to redeem the securities prior to their maturity.

~~Application of Rules G-12(c) and G-15(a) on Confirmation Disclosure of Escrowed-to-Maturity Securities~~

~~Rules G-12(c)(vi)(E) and G-15(a)(iii)(E) require dealers to disclose on customer confirmations, respectively, whether the securities are "called" or "prerefunded," the date of maturity which has been fixed by the call notice, and the call price. The Board has stated that this paragraph would require, in the case of escrowed-to-maturity securities, a statement to that effect (which would also meet the requirement to state "the date of maturity which has been fixed") and the amount to be paid at redemption.[2] In addition, rules G-12(c)(v)(E) and G-15(a)(i)(E) require dealers to note on confirmations if securities are subject to redemption prior to maturity ("callable").~~

~~The Board understands that dealers traditionally have used the term escrowed-to-maturity only for non-callable advance refunded issues the proceeds of which are escrowed to the original maturity date or for escrowed-to-maturity issues with mandatory sinking fund calls. To avoid confusion in the use of the term escrowed-to-maturity, the Board has determined that dealers should use the term escrowed-to-maturity to describe on confirmations only those issues with no optional redemption provisions expressly reserved in escrow and refunding documents. Escrowed-to-maturity issues with no optional or mandatory call features must be described as "escrowed-to-maturity." Escrowed-to-maturity issues subject to mandatory sinking fund calls must be described as "escrowed-to-maturity" and "callable." If an issue is advance refunded to the original maturity date, but the issuer expressly reserves optional redemption features, the security should be described on confirmations as "escrowed (or prerefunded) to {the actual maturity date}" and "callable."~~[3]

~~The Board believes that the use of different terminology to describe advance refunded issues expressly subject to optional calls will better alert dealers and customers to this important aspect of certain escrowed issues.~~[4]

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1 Rule G-17 states

> "In the conduct of its municipal securities business, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice."

~~2 See MSRB interpretation of January 7, 1982 by Donald F. Donahue, Deputy Executive Director, MSRB Manual (CCH) para. 3571.15 at 4752.~~

~~[3] This terminology also would be used for any issue prerefunded to a call date, with an earlier optional call expressly reserved.~~

~~[4] The Board believes that, because of the small number of advance refunded issues that expressly reserve the right of the issuer to call the issue pursuant to an optional redemption provision, confirmation systems should be able to be programmed for use of the new terminology without delay.~~

* * * * *

Notice Concerning Clearance and Settlement of Stripped Coupon Municipal Securities (Mar. 13, 1989)[20]

~~Confirmation Requirements~~

~~Dealers generally should confirm transactions in stripped coupon municipal securities as they would transactions in other municipal securities that do not pay periodic interest or which pay interest annually.[2] A review of the Board's confirmation requirements applicable to the securities follows.~~

~~*Securities Descriptions.* Rules G-12(c)(v)(E) and G-15(a)(i)(E) require a complete securities description to be included on inter-dealer and customer confirmations, respectively, including the name of the issuer, interest rate and maturity date.[3] In addition to the name of the issuer of the underlying municipal securities, the trade name and series designation assigned to the stripped coupon municipal security by the dealer sponsoring the program must be included on the confirmation.[4] Of course, the interest rate actually paid by the stripped coupon security (*e.g.*, zero percent or the actual, annual interest rate) must be stated on the confirmation as the interest rate rather than the interest rate on the underlying security. Similarly, the maturity date listed on the confirmation must be the date of the final payment made by the stripped coupon municipal security rather than the maturity date of the underlying securities.[5]~~

~~*Credit Enhancement Information.* Rules G-12(c)(vi)(D) and G-15(a)(ii)(D) require confirmations of securities pre-refunded to a call date or escrowed to maturity to state this~~

[20] This interpretive guidance is being edited to reflect the changes to the prior version of guidance which contains certain explanatory text from the rule filing. The MSRB deleted the outdated information and is only retaining the clearance and settlement information pertaining to stripped coupon securities. The guidance is available at https://www.msrb.org/Notice-Concerning-Stripped-Coupon-Municipal-Securities.

~~fact along with the date of maturity set by the advance refunding and the redemption price. If the underlying municipal securities are advance-refunded, confirmations of the stripped coupon municipal securities must note this. In addition, rules G-12(c)(v)(E) and G-15(c)(i)(E) require that the name of any company or other person, in addition to the issuer, obligated directly or indirectly with respect to debt service on the underlying issue or the stripped coupon security be included on confirmations.~~[6]

~~*Quantity of Securities and Denominations*. For securities that mature in more than two years and pay investment return only at maturity, rules G-12(c)(v) and G-15(a)(v) require the maturity value to be stated on confirmations in lieu of par value. This requirement is applicable to transactions in stripped coupon municipal securities over two years in maturity that pay investment return only at maturity, *e.g.*, securities representing one interest payment or one principal payment. For securities that pay only principal and that are pre-refunded at a premium price, the principal amount may be stated as the transaction amount, but the maturity value must be clearly noted elsewhere on the confirmation. This may permit such securities to be sold in standard denominations and will facilitate the clearance and settlement of the securities.~~

~~Rules G-12(c)(vi)(F) and G-15(a)(iii)(G) require confirmations of securities that are sold or that will be delivered in denominations other than the standard denominations specified in rules G-12(e)(v) and G-15(a)(iii)(G) to state the denominations on the confirmation. The standard denominations are $1,000 or $5,000 for bearer securities, and for registered securities, increments of $1,000 up to a maximum of $100,000. If stripped coupon municipal securities are sold or will be delivered in any other denominations, the denomination of the security must be stated on the confirmation.~~

~~*Dated Date.* Rules G-12(c)(vi)(A) and G-15(a)(iii)(A) require that confirmations state the dated date of a security if it affects price or interest calculations, and the first interest payment date if other than semi-annual. The dated date for purposes of an interest-paying stripped coupon municipal security is the date that interest begins accruing to the custodian for payment to the beneficial owner. This date, along with the first date that interest will be paid to the owner, must be stated on the confirmation whenever it is necessary for calculation of price or accrued interest.~~

~~*Original Issue Discount Disclosure.* Rules G-12(c)(vi)(G) and G-15(a)(iii)(H) require that confirmations identify securities that pay periodic interest and that are sold by an underwriter or designated by the issuer as "original issue discount." This alerts purchasers that the periodic interest received on the securities is not the only source of tax-exempt return on investment. Under federal tax law, the purchaser of stripped coupon municipal securities is assumed to have purchased the securities at an "original issue discount," which determines the amount of investment income that will be tax-exempt to the~~

~~purchaser. Thus, dealers should include the designation of "original issue discount" on confirmations of stripped coupon municipal securities, such as annual payment securities, which pay periodic interest.~~

~~Clearance and Settlement of Stripped Coupon Municipal Securities~~

Under rules G-12(e)(vi)(B) and G-15(a)(iv)(B), delivery of securities transferable only on the books of a custodian can be made only by the bookkeeping entry of the custodian.[1~~7~~] Many dealers sponsoring stripped coupon programs provide customers with "certificates of accrual" or "receipts," which evidence the type and amount of the stripped coupon municipal securities that are held by the custodian on behalf of the beneficial owner. Some of these documents, which generally are referred to as "custodial receipts," include "assignment forms," which allow the beneficial owner to instruct the custodian to transfer the ownership of the securities on its books. Physical delivery of a custodial receipt is not a good delivery under rules G-12(e) and G-15(a) unless the parties specifically have agreed to the delivery of a custodial receipt. If such an agreement is reached, it should be noted on the confirmation of the transaction, as required by rules G-12(c)(v)(A)(10)(b) ~~G-12(c)(v)(N)~~ and G-15(a)(i)(A)(7)(d). ~~G-15(a)(i)(N).~~

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[2] ~~Thus, for stripped coupon municipal securities that do not pay periodic interest, rules G-12(c)(v) and G-15(a)(v) require confirmations to state the interest rate as zero and, for customer confirmations, the inclusion of a legend indicating that the customer will not receive periodic interest payments. Rules G-12(c)(vi)(H) and G-15(a)(iii)(I) require confirmations of securities paying annual interest to note this fact.~~

[3] ~~The complete description consists of all of the following information:~~

~~the name of the issuer, interest rate, maturity date, and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities and in the case of any securities, if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service or, if there is more than one such obligor, the statement, "multiple obligors" may be shown.~~

[4] ~~Trade name and series designation is required under rules G-12(c)(vi)(I) and G-15(a)(iii)(J), which state that confirmations, must include all information necessary to ensure that the parties agree to the details of the transaction.~~

[5] ~~Therefore, the maturity date of a stripped coupon municipal security representing one interest payment is the date of the interest payment.~~

[6] ~~It should be noted that the SEC staff letter is limited to instruments in which "neither the custodian nor sponsor additionally will guarantee or otherwise enhance the creditworthiness of the underlying municipal security or the stripped coupon security."~~

[1] ~~7~~ Under Rule G-15(a)(i)(C)(2)(d) ~~rules G-12(c)(vi)(B) and G-15(a)(iii)(B)~~ the book-entry-only nature of the securities also must be noted on the confirmation.

* * * * *

Calculation of Price and Yield on Continuously Callable Securities (Aug. 15, 1989)

This will respond to your letter of May 30, 1989, relating to the calculation of price and yield in transactions involving municipal securities which can be called by the issuer at any time after the first optional "in-whole" call date. The Board reviewed your letter at its August 1989 meeting and has authorized this response.

Rules G-12(c) and G-15(a) govern inter-dealer and customer confirmations, respectively. For transactions executed on a yield basis, Rules G-12(c)(v)(A)(7)(c) and G-15(a)(i)(A)(5)(c) ~~rules G-12(c)(v)(I) and G-15(a)(v)(I)~~ require the dollar price computed from yield and shown on the confirmation to be computed to the lower of call or maturity. The rules also require the call date and price to be shown on the confirmation when securities are priced to a call date.

In computing price to call, only "in-whole" calls, of the type which may be exercised in the event of a refunding, should be used.[1] The "in-whole" call producing the lowest price must be used when computing price to call. If there is a series of "in-whole" call dates with declining premiums, a calculation to the first premium call date generally will produce the lowest price to call. However, in certain circumstances involving premiums which decline steeply over a short time, an "intermediate" call date - a date on which a lower premium or par call becomes operative - may produce the lowest price. Dealers must calculate prices to intermediate call dates when this is the case.[2] Identical rules govern the computation and display of yield to call and yield to maturity, as required on customer confirmations under rule G-15(a).

The issues that you describe are callable at declining premiums, in part or in whole, at any time after the first optional call date. There is no restriction on the issuer in exercising a call after this date except for the requirement to give 30 to 60 days notice of the redemption. Since this "continuous" call provision is an "in-whole" call of the type which may be used for a refunding, it must be considered when calculating price or yield.

The procedure for calculating price to call for these issues is the same as for other securities with declining premium calls. Dealers must take the lowest price possible from the operation of an "in-whole" call feature, compare it to the price calculated to maturity and use the lower of the two figures on the confirmation. For settlement dates prior to the first "in-whole" call, it generally should be sufficient to check the first and intermediate call dates (including the par call), determine which produces the lowest price, and compare that price to the price calculated to maturity. For settlement dates occurring after the first "in-whole" call date, it must be assumed that a notice of call could be published on the day after trade date, which would result in the redemption of the issue 31 days after trade date.[3] The price calculated to this possible redemption date should be compared to prices calculated to subsequent intermediate call dates and the lowest of these prices used as the price to call. The price computed to call then can be compared to the price computed to maturity and the lower of the two included on the confirmation. If a price to call is used, the date and redemption price of the call must be stated. Identical procedures are used for computing yield from price for display on customer confirmations under rule G-15(a).

You also have asked for the Board's interpretation of two official statements which you believe have a continuous call feature and ask whether securities with continuous call features typically are called between the normal coupon dates. The Board's rulemaking authority does not extend to the interpretation of official statements and the Board does not collect information on issuer practices in calling securities. Therefore, the Board cannot assist you with these inquiries.

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1 The parties to a transaction may agree at the time of trade to price securities to a date other than an "in-whole" call date or maturity. If such an agreement is reached, it must be noted on the confirmation.

2 *See* Notice Concerning Pricing to Call, December 10, 1980~~, MSRB Manual (CCH) paragraph 3571, at 4606~~.

3 If a notice of call for the entire issue occurs on or prior to the trade date, delivery cannot be made on the transaction and it must be worked out or arbitrated by the parties unless the securities are identified as “called” at the time of trade. *See* rules G-12(e)(x)(B) and G-15(c)(viii)(B).

* * * * *

Confirmation Requirements for Partially Refunded Securities (Aug. 15, 1989)

This will respond to your letter of May 16, 1989. The Board reviewed your letter at its August 1989 meeting and authorized this response.

You ask what is the correct method of computing price from yield on certain types of "partially prerefunded" issues having a mandatory sinking fund redemption. The escrow agreement for these issues provides for a stated portion of the issue to be redeemed at a premium price on an optional, "in-whole," call date for the issue. The remainder of the issue is subject to a sinking fund redemption at par.[1] Unlike some issues that are prerefunded by certificate number, the certificates that will be called at a premium price on the optional call date are not identified and published in advance. Instead, they are selected by lottery 30 to 60 days before the redemption date for the premium call. Prior to this time, it is not known which certificates will be called at a premium price on the optional call date. In the particular issues you have described, the operation of the sinking fund redemption will retire the entire issue prior to the stated maturity date for the issue.

As you know, rules G-12(c) and G-15(a) govern inter-dealer and customer confirmations, respectively. ~~Rules G-12(c)(v)(1) and G-15(a)(i)(1)~~ These rules require the dollar price computed from yield and shown on the confirmation to be computed to the lower of call date or maturity. For purposes of computing price to call, only "in-whole" calls, of the type which may be exercised in the event of a refunding, are used.[2] Accordingly, the Board previously has concluded that the sinking fund redemption in the type of issue you have described should be ignored and the dollar price should be calculated to the lowest of the "in-whole" call date for the issue *(i.e.*, the redemption date of the prerefunding) or maturity. In addition, the stated maturity date must be used for the calculation of price to maturity rather than any "effective" maturity which results from the operation of the sinking fund redemption. Identical rules apply when calculating yield from dollar price. Of course, the parties to a transaction may agree to calculate price or yield to a specific date, *e.g.*, a date which takes into account a sinking fund redemption. If this is done, it should be noted on the confirmation.[3]

In our telephone conversations, you also asked what is the appropriate securities description for securities that are advance refunded in this manner. Rule G-15(a)(i)(C)(3)(a) ~~Rules G-12(c)(v)(E) and G-15(a)(i)(E)~~ require that confirmations of securities that are "prerefunded" include a notation of this fact along with the date of "maturity" that has been fixed by the advance refunding and the redemption price. The rules also state that securities that are redeemable prior to maturity must be described as "callable".[4] In addition, Rule G-15(a)(i)(A)(8) ~~rules G-12(c)(vi)(I) and G-15(a)(iii)(J)~~ states that confirmations must include information not specifically required by the rules if the information is necessary to ensure that the parties agree to the details of the transaction. Since, in this case, only a portion of the issue will be chosen by lot and redeemed at a premium price under the prerefunding, this fact must be noted on the confirmation. As an example, the issue could be described as "partially prerefunded to [redemption date] at [premium price] to be chosen by lot-callable." The notation of this fact must be included within the securities description shown on the front of the confirmation.

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1 In some issues, a sinking fund redemption operates prior to the optional call date, while, in others, the sinking fund redemption does not begin until on or after that date.

2 See Notice of December 10, 1980, Concerning Pricing to Call. ~~MSRB Manual, paragraph 3571, at 4605-4606.~~

~~3 These rules on pricing partially prerefunded securities with sinking funds are set forth in MSRB interpretation of May 15, 1986, MSRB Manual (CCH), paragraph 3571.26, at 4757.~~

~~4 The Board has published an interpretive notice providing specific guidance on the confirmation of advanced refunded securities that are callable pursuant to an optional call. See Application of Rules G-12(c) and G-15(a) on Confirmation Disclosure of Escrowed to Maturity Securities, MSRB Manual, paragraph 3581, at page 4862.~~

* * * * *

Full Retirement of Outdated Interpretive Guidance Related to Confirmation Requirements[21]

~~Uniform Practice and Rule G-15 on Customer Confirmations (Nov. 28, 1977)~~

~~This notice addresses several questions that have arisen concerning Board rules G-12 and G-15. Board rule G-12 establishes uniform industry procedures for the processing, clearance, and settlement of transactions in municipal securities... Board rule G-15 requires municipal securities professionals to send written confirmations of transactions to customers, and specifies the information required to be set forth on the confirmation.~~

~~Settlement Dates~~

~~In order to establish uniform settlement dates for "regular way" transactions in municipal securities, rule G-12(b)(i)(B) defines the term "business day" as "a day recognized by the National Association of Securities Dealers, Inc. [the "NASD"] as a day on which securities transactions may be settled." The practice of the NASD has been to exclude from the category of "business day," any day widely designated as a legal bank holiday, and to notify the NASD membership accordingly. Such notices set forth the NASD's trade and settlement date schedules for periods which include a legal holiday.~~

~~"Catastrophe" Call Features~~

~~Rules G-12 and G-15 require that confirmations of transactions set forth a "description of the securities, including at a minimum… if the securities are subject to redemption prior to maturity (callable)… an indication to such effect…" (paragraphs G-12(c)(v)(E) and G-15(a)(v)[*]). Both rules also require that in transactions in callable securities effected on a yield basis, dollar price must be shown and "the calculation of dollar price shall be to the lower of price to call or price to maturity" (paragraphs G-12(c)(v)(I) and G-15(a)(viii)[†]).~~

~~The references to "callable" securities and pricing to call in rules G-12 and G-15 do not refer to "catastrophe" call features, such as those relating to acts of God or eminent domain, which are beyond the control of the issuer of the securities.~~

[21] Interpretive guidance that has been retired will be removed from the MSRB rulebook and made available on the MSRB Archived Interpretive Guidance webpage, located at https://www.msrb.org/MSRB-Archived-Interpretive-Guidance.

~~[*] [Currently codified at rule G-15(a)(i)(C)(2)(a)]~~

~~[†] [Currently codified at rule G-15(a)(i)(A)(5)]~~

* * * * *

~~Confirmation Requirements (Mar. 25, 1980)~~

~~Rule G-12(c)(v)(E) requires a municipal securities dealer to set forth on an inter-dealer confirmation a description of the securities which are the subject of the transaction, including "…in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities…."~~

~~Rule G-15(a)(v) [*] imposes the identical requirement with respect to customer confirmations. The Board has recently received an inquiry regarding whether these provisions require confirmations of transactions in Los Angeles Department of Water and Power bonds to distinguish between bonds secured by revenues of the electric power system and bonds secured by revenues of the waterworks system.~~

~~The Board is of the view that, if securities of a particular issuer are secured by separate sources of revenue, the source of revenue of the securities involved in a transaction is a material element of the description of the securities which should be set forth on customer and inter-dealer confirmations. Confirmations of transactions in Los Angeles Department of Water and Power bonds must therefore indicate whether the securities are "electric revenue" or "water revenue" bonds.~~

~~[*] [Currently codified at rule G-15 (a)(i)(C)(1)(a)]~~

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~~**Confirmation Disclosure Requirements Applicable to Variable-Rate Municipal Securities (Dec. 10, 1980)**~~

~~The Municipal Securities Rulemaking Board has recently received inquiries concerning the application of the Board's confirmation disclosure requirements, which are contained in Board rules G-12 and G-15, to municipal securities with variable or "floating" interest rates.~~

~~Rule G-12(c)(v)(E)[*] requires a municipal securities dealer to set forth on an inter-dealer confirmation a description of the securities which are the subject of the transaction, including the interest rate. Rule G-15(a)(i)(E)[*] imposes the same requirement with respect to customer confirmations. The Board is of the view that these provisions require that the security description appearing on customer and inter-dealer confirmations for securities with variable interest rates include a clear indication that the interest rates are variable or "floating."~~

~~The Board also notes that due to the variability of the interest rates on these securities, it is not possible to derive a yield to a future call or maturity date. Therefore, the Board has concluded that the provision of rule G-15 which requires that customer confirmations for transactions effected at a dollar price set forth the yield resulting from such dollar price is not applicable to transactions in variable-rate municipal securities.~~

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[*] ~~[Currently codified at rule G-15(a)(1)(B)(4)]~~

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~~**Confirmation Disclosure: Put Option Bonds (Apr. 24, 1981)**~~

~~Confirmation disclosure: put option bonds. This will acknowledge receipt of your letter of March 17, 1981, with respect to "put option" or "tender option" features on certain new issues of municipal securities. In your letter you note that an increasing number of issues with "put option" features are being brought to market, and you inquire concerning the application of the Board's rules to these securities.~~

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

~~securities must usually give several months prior notice to the trustee of his intention to exercise the "put option."~~

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

~~Both rules require confirmations to set forth a~~

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

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

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

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

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

~~(A) for transactions effected on a yield basis, the yield at which transaction was effected and the resulting dollar price shall be shown. Such dollar price shall be calculated to the lowest of price to premium call, price to par option, or price to maturity. In cases in which the dollar price is calculated to premium call or par option, this must be stated, and the call or option date and price used in the calculation must be shown.~~

~~(B) for transactions effected on the basis of dollar price, the dollar price at which transaction was effected, and the lowest of the resulting yield to premium call, yield to par option, or yield to maturity shall be shown; provided, however, that yield information for transactions in callable securities effected at a dollar price in excess of par, other than transactions in securities which have been called or prerefunded, is not required to be shown until October 1, 1981.~~

~~(C) for transactions at par, the dollar price shall be shown[.]~~

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

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

* * * * *

~~**Notice Concerning "Zero Coupon" and "Stepped Coupon" Securities (Apr. 27, 1982)**~~

~~The Municipal Securities Rulemaking Board has recently received inquiries concerning the application of the confirmation disclosure requirements of Board rules G-12 and G-15 to transactions in municipal securities with "zero coupons" or "stepped coupons." Certain recent new issues of municipal securities have had several maturities paying 0% interest;~~

~~securities of these maturities are sold at deep discounts, with the investor's return received in the form of an accretion of this discount to par. Other issues have been sold which have "stepped coupons;" that is, all outstanding bonds pay the same interest rate each year, with the interest rate periodically rising, on a pre-established schedule, on all securities yet to be redeemed. Interested persons have inquired concerning how the description requirements of the rules apply to such securities, and whether the yield disclosure requirements of rule G-15 apply to confirmations of transactions in such securities for the accounts of customers.~~

~~Rule G-12(c)(v)(E) requires a municipal securities dealer to set forth on an inter-dealer confirmation a description of the securities which are the subject of the transaction, including the interest rate. Rule G-15(a)(i)(E)[*] imposes the same requirement with respect to customer confirmations. Further, rule G-15(a)(i)(I)(2)[†] requires that customer confirmations of transactions effected at dollar prices (except for transactions at par) state the lowest of the resulting yield to call, yield to par option, or yield to maturity.~~

~~A confirmation of a transaction in a "zero coupon" security must state that the interest rate on the security is "0%." A customer confirmation of such a transaction must state the lowest of the yield to call or yield to maturity resulting from the dollar price of the transaction.[1] The Board believes that the disclosure of the resulting yield is particularly important on such transactions, since it provides the only indication to the investor of the return he or she can expect from the investment.~~

~~A confirmation of a transaction in a "stepped coupon" security must state the interest rate currently being paid on the securities, and must identify the securities as "stepped coupon" securities. A customer confirmation of such a transaction must also state the lowest of the yield to call, yield to par option, or yield to maturity resulting from the dollar price of the transaction.[2] In view of the wide variation in the coupon interest rates that will be received over the life of a "stepped coupon" security, the Board believes that the disclosure of yield will assist customers in determining the actual return to be received on the investment.~~

~~In addition to the specific confirmation disclosure requirements of Board rules G-12 and G-15 discussed above, the Board is of the view that persons selling such securities to the public have an obligation to adequately disclose the special characteristics of such securities so as to comply with the Board's fair practice rules. For example, although the details of the increases to the interest rates on "stepped coupon" securities need not be provided on confirmations, such information is, of course, material information regarding the securities, and municipal securities dealers would be obliged to inform customers about this feature of the securities at or before the time of trade.~~

~~[1] The Board notes that, upon the effectiveness of Board rule G-33, such yield must be computed on a basis that presumes semi-annual compounding.~~

~~[2] In the case of both "zero coupon" and "stepped coupon" securities, if the transaction is effected in a yield basis, the confirmation must show the yield price and the resulting dollar price, computed to the lowest of price to premium call, price to par option, or price to maturity.~~

~~[*] [Currently codified at rule G-15(a)(i)(B)(4)]~~

~~[†] [Currently codified at rule G-15(a)(i)(A)(5)]~~

* * * * *

~~**Securities Description: Revenue Securities (Dec. 01, 1982)**~~

~~Securities description: revenue securities. I am writing in response to your letter of September 30, 1982 regarding the confirmation description of revenue securities. In your letter you note that the designation "revenue" is often not included in the title of the security, and you raise several questions concerning the method of deriving a proper confirmation description of revenue securities.~~

~~As you know, rule G-15(a)(v)[*] requires that customer confirmations set forth a description of the securities [involved in the transaction] including at a minimum the name of the issuer, interest rate, maturity date and *if the securities are ... revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities...*[1] [emphasis added]~~

~~The rule requires, therefore, that revenue securities be designated as such, regardless of whether or not such designation appears in the formal title of the security. The dealer preparing the confirmation is responsible for ensuring that the designation is included in the securities description. In circumstances in which standard sources of descriptive information (*e.g.*, official statements, rating agency and service bureau publications, and the like) do not include such a designation in the security title, therefore, the dealer must augment this title to include the requisite information.~~

~~In your letter you inquire as to who is responsible for providing this type of descriptive information to the facilities manager of the CUSIP system. Although the Board does not currently have any requirements concerning this matter, proposed rule G-34 will, when approved by the Securities and Exchange Commission, require that the managing underwriter of a new issue of municipal securities apply for the assignment of CUSIP numbers of such new issue if no other person (*i.e.*, the issuer or a person acting on behalf of the issuer) has already applied for number assignment. In connection with such application, if one is necessary, the managing underwriter is required, under the proposed rule, to provide certain information about the new issue, including a designation of the "type of issue (*e.g.*, general obligation, limited tax, or revenue)" and an indication of the "type of revenue, if the issue is a revenue issue."~~

~~In your letter you also ask for "the official definition of a 'revenue' issue." There is no "official definition" of what constitutes a revenue issue. Various publications include a definition of the term (*e.g.*, the PSA's *Fundamentals of Municipal Bonds*, the State of Florida's *Glossary of Municipal Securities Terms*, etc.) and I would urge you to consult these for further information. *MSRB interpretation of December 1, 1982.*~~

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[1] ~~Rule G-12(c)(v)(E) sets forth the same requirement with respect to inter-dealer confirmations.~~

[*] ~~[Currently codified at rules G-15(a)(i)(B) and G-15(a)(i)(C)]~~

* * * * *

~~Delivery Requirements: Put Option Bonds (Feb. 27, 1985)~~

~~Delivery requirements: put option bonds. In a previous telephone conversation [name omitted] of your office had inquired whether any or all of the following deliveries of securities which are subject to a put option could be rejected:~~

~~(1) Certain securities are the subject of a "one time only" put option, exercisable by delivery of the securities to a designated trustee on or before a stated expiration date. An inter-dealer transaction in the securities—described as "puttable" securities—is effected for settlement prior to the expiration date. Delivery on the transaction is not made, however, until after the expiration date, and the recipient is accordingly unable to exercise the option, since it cannot deliver the securities to the trustee by the expiration date.~~

~~(2) Certain securities are the subject of a "one time only" put option, exercisable by delivery of the securities to a designated trustee on or before a stated expiration date. An inter-dealer transaction in the securities—described as "puttable" securities—is effected for settlement prior to the expiration date. Delivery on the transaction is made prior to the expiration date, but too late to permit the recipient to satisfy the conditions under which it can exercise the option (*e.g.*, the trustee is located too far away for the recipient to be able to present the physical securities by the expiration date).~~

~~(3) Certain securities are the subject of a put option exercisable on a stated periodic basis (*e.g.*, annually). An inter-dealer transaction in the securities—described as "puttable" securities—is effected for settlement shortly before the annual exercise date on the option. Delivery on the transaction, however, is not made until after the annual exercise date, so that the recipient is unable to exercise the option at the time it anticipated being able to do so.~~

~~I am writing to confirm my previous advice to him regarding the Board's consideration of his inquiry.~~

~~As I informed him, his inquiry was referred to a Committee of the Board which has responsibility for interpreting the "delivery" provisions of the Board's rules; that Committee has authorized my sending this response. In considering the inquiry, the Committee took note of the provisions of Board rule G-12(g), under which an inter-dealer delivery may be reclaimed for a period of eighteen months following the delivery date in the event that information pertaining to the description of the securities was inaccurate for either of the following reasons:~~

~~(i) information required by subparagraph (c)(v)(E) of this rule was omitted or erroneously noted on a confirmation, or~~

~~(ii) information material to the transaction but not required by subparagraph (c)(v)(E) of this rule was erroneously noted on a confirmation.~~

~~Under this provision, therefore, a delivery of securities described on the confirmation as being "puttable" securities could be reclaimed if the securities delivered are not, in fact, "puttable" securities.~~

~~The Committee is of the view that, in the first of the situations which he cited, the delivery could be rejected or reclaimed pursuant to the provisions of rule G-12(g). In this instance the securities were traded and described as being "puttable" securities; the securities~~

~~delivered, however, are no longer "puttable" securities, since the put option has expired by the delivery date. Accordingly, the rule would permit rejection or reclamation of the delivery.~~

~~In the third case he put forth, however, this provision would not be applicable, since the securities delivered are as described. Accordingly, there would not be a basis under the rules to reject or reclaim this delivery, and a purchasing dealer who believed that it had incurred some loss as a result of the delivery would have to seek redress in an arbitration proceeding or in the courts. This may also be the result in the second case he cited, depending on the facts and circumstances of the delivery.~~ ~~*MSRB interpretation of February 27, 1985.*~~

* * * * *

~~Notice Concerning the Application of Board Rules to Put Option Bonds (Sep. 30, 1985)~~

~~The Board has received a number of inquiries from municipal securities brokers and dealers regarding the application of the Board's rules to transactions in put option bonds. Put option or tender option bonds on new issue securities are obligations which grant the bondholder the right to require the issuer (or a specified third party acting as agent for the issuer), after giving required notice, to purchase the bonds, usually at par (the "strike price"), at a certain time or times prior to maturity (the "expiration date(s)") or upon the occurrence of specified events or conditions. Put options on secondary market securities also are coming into prominence. These instruments are issued by financial institutions and permit the purchaser to sell, after giving required notice, a specified amount of securities from a specified issue to the financial institution on certain expiration dates at the strike price. Put options generally are backed by letters of credit. Secondary market put options often are sold as an attachment to the security, and subsequently are transferred with that security. Frequently, however, the put option may be sold separately from that security and re-attached to other securities from the same issue.~~

~~Of course, the Board's rules apply to put option bonds just as they apply to all other municipal securities. The Board, however, has issued a number of interpretive letters on the specific application of its rules to these types of bonds. These interpretive positions are reviewed below.~~

~~Fair Practice Rules~~

~~1. Rule G-17~~

~~Board rule G-17, regarding fair dealing, imposes an obligation on persons selling put option bonds to customers to disclose adequately all material information concerning these securities and the put features at the time of trade. In an interpretive letter on this issue,[1] the Board responded to the question whether a dealer who had previously sold put option securities to a customer would be obligated to contact that customer around the time the put option comes into effect to remind the customer that the put option is available. The Board stated that no Board rule would impose such an obligation on the dealer.~~

~~In addition, the Board was asked whether a dealer who purchased from a customer securities with a put option feature at the time of the put option exercise date at a price significantly below the put exercise price would be in violation of any Board rules. The Board responded that such dealer may well be deemed to be in violation of Board rules G-17 on fair dealing and G-30 on prices and commissions.~~

~~2. Rule G-25(b)~~

~~Board rule G-25(b) prohibits brokers, dealers, and municipal securities dealers from guaranteeing or offering to guarantee a customer against loss in municipal securities transactions. Under the rule, put options are not deemed to be guarantees against loss if their terms are provided in writing to the customer with or on the confirmation of the transaction and recorded in accordance with rule G-8(a)(v).[2] Thus, when a municipal securities dealer is the issuer of a secondary market put option on a municipal security, the terms of the put option must be included with or on customer confirmations of transactions in the underlying security. Dealers that sell bonds subject to put options issued by an entity other than the dealer would not be subject to this disclosure requirement.~~

~~Confirmation Disclosure Rules~~

~~1. Description of Security~~

~~Rules G-12(c)(v)(E) and G-15(a)(i)(E)[*] require inter-dealer and customer confirmations to set forth~~

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

~~Confirmations of transactions in put option securities, therefore, would have to indicate the existence of the put option (*e.g.*, by including the designation "puttable" on the~~

~~confirmation), much as confirmations concerning callable securities must indicate the existence of the call feature. The confirmation need not set forth the specific details of the put option feature.~~[3]

~~Rules G-12(c)(v)(E) and G-15(a)(i)(E)~~[†] ~~also require confirmations to contain~~

~~a description of the securities including at a minimum… if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service…~~

~~The Board has stated that a bank issuing a letter of credit which secures a put option feature on an issue is "obligated… with respect to debt service" on such issue. Thus, the identity of the bank issuing the letter of credit securing the put option also must be indicated on the confirmation.~~[4]

~~Finally, rules G-12(c)(v)(E) and G-15(a)(i)(E)~~[‡] ~~requires that dealer and customer confirmations contain a description of the securities including, among other things, the interest rate on the bonds. The Board has interpreted this provision as it pertains to certain tender option bonds with adjustable tender fees to require that the net interest rate (*i.e.*, the current effective interest rate taking into account the tender fee) be disclosed in the interest rate field and that dealers include elsewhere in the description field of the confirmation the stated interest rate with the phrase "less fee for put."~~[5]

~~2. Yield Disclosure~~

~~Board rule G-12(c)(v)(I) requires that inter-dealer confirmations include the~~

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

~~Rule G-15(a)(i)(I)~~[#] ~~requires that customer confirmations include information on yield and dollar price as follows:~~

~~(1) for transactions effected on a yield basis, the yield at which transaction was effected and the resulting dollar price shall be shown. Such dollar price shall be calculated to the lowest of price to call, price to par option, or price to maturity.~~

~~(2) for transactions effected on the basis of dollar price, the dollar price at which transaction was effected, and the lowest of the resulting yield to call, yield to par option, or yield to maturity shall be shown.~~

~~(3) for transactions at par, the dollar price shall be shown.~~

~~In cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, this must be stated, and the call or option date and price used in the calculation must be shown.~~

~~Neither of these rules requires the presentation of a yield or a dollar price computed to the put option date as a part of the standard confirmation process. In many circumstances, however, the parties to a particular transaction may agree that the transaction is effected on the basis of a yield to the put option date, and that the dollar price will be computed in this fashion. If that is the case, the yield to the put date must be included on confirmations as the yield at which the transaction was effected and the resulting dollar price computed to the put date, together with a statement that it is a "yield to the [date] put option" and an indication of the date the option first becomes available to the holder.[6] The requirement for transactions effected on a yield basis of pricing to the lowest of price to call, price to par option or price to maturity, applies only when the parties have not specified the yield on which the transaction is based.~~

~~In addition, in regard to transactions in tender option bonds with adjustable tender fees, even if the transaction is not effected on the basis of a yield to the tender date, dealers must include the yield to the tender date since an accurate yield to maturity cannot be calculated for these securities because of the yearly adjustment in tender fees.[7]~~

~~Delivery Requirements~~

~~In a recent interpretive letter, the Board responded to an inquiry whether, in three situations, the delivery of securities subject to put options could be rejected.[8] The Board responded that, in the first situation in which securities subject to a "one time only" put option were purchased for settlement prior to the option expiration date but delivered after the option expiration date, such delivery could be rejected since the securities delivered were no longer "puttable" securities. In the second situation in which securities subject to a "one time only" put option were purchased for settlement prior to the option expiration date and delivered prior to that date, but too late to permit the recipient to satisfy the conditions under which it could exercise the option (*e.g.*, the trustee is located too far away for the recipient to be able to present the physical securities by the expiration date), the Board~~

~~stated that there might not be a basis for rejecting delivery, since the bonds delivered were "puttable" bonds, depending on the facts and circumstances of the delivery. A purchasing dealer who believed that it had incurred some loss as a result of the delivery would have to seek redress in an arbitration proceeding.~~

~~Finally, in the third situation, securities which were the subject of a put option exercisable on a stated periodic basis (*e.g.*, annually) were purchased for settlement prior to the annual exercise date so that the recipient was unable to exercise the option at the time it anticipated being able to do so. The Board stated that this delivery could not be rejected since "puttable" bonds were delivered. A purchasing dealer who believed that it had incurred some loss as a result of the delivery would have to seek redress in an arbitration proceeding.~~

~~[1] See [Rule G-17 Interpretive Letter - Put option bonds: safekeeping, pricing,] MSRB interpretation of February 18, 1983.~~

~~[2] Rule G-8(a)(v) requires dealers to record, among other things, oral or written put options with respect to municipal securities in which such municipal securities broker or dealer has any direct or indirect interest, showing the description and aggregate par value of the securities and the terms and conditions of the option.~~

~~[3] See [Rule G-12 Interpretive Letter - Confirmation disclosure: put option bonds,] MSRB interpretation of April 24, 1981.~~

~~[4] See [Rule G-15 Interpretive Letter - Securities description: securities backed by letters of credit,] MSRB interpretation of December 2, 1982.~~

~~[5] See [Rule G-12 Interpretive Letter - Confirmation disclosure: tender option bonds with adjustable tender fees,] MSRB interpretation of March 5, 1985.~~

~~[6] See [Rule G-12 Interpretive Letter - Confirmation disclosure: put option bonds,] MSRB interpretation of April 24, 1981.~~

~~[7] See fn. 5.~~

~~[8] See [Rule G-12 Interpretive Letter - Delivery requirements: put option bonds,] MSRB interpretation of February 27, 1985.~~

~~[*] [Currently codified at rule G-15(a)(i)(C)(2)(a). See also current rule G-15(a)(i)(C)(2)(b).]~~

~~[†] [Currently codified at rule G-15(a)(i)(C)(1)(b).]~~

~~[‡] [Currently codified at rule G-15(a)(i)(B)(4). See also current rule G-15(a)(i)(B)(4)(c).]~~

~~[#] [Currently codified at rule G-15(a)(i)(A)(5). See also current rule G-15(a)(i)(A)(5)(c)(vi)(D).]~~

* * * * *

~~Confirmation Disclosure Requirements for Callable Municipal Securities (Feb. 20, 1986)~~

~~Recently, the Board has received inquiries concerning the application of its inter-dealer and customer confirmation rules, rules G-12(c) and G-15(a) respectively, to municipal securities subject to call features. In particular, the Board has been made aware of instances in which dealers note one call date and price, usually the first in-whole call, on inter-dealer and customer confirmations without noting that the call information relates to the first in-whole call or that the bonds are otherwise callable.~~

~~Rules G-12(c) and G-15(a) require that confirmations set forth a~~

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

~~Thus, municipal securities subject to in-whole or in-part calls must be described as callable. Rules G-12(c) and G-15(a) also require dealers, when securities transactions are effected on a yield basis, to set forth a dollar price that has been computed to the lowest of the price to call, price to par option, or price to maturity; rule G-15 requires that confirmations of customer transactions effected on a dollar price disclose a yield in a similar manner. These rules provide that when a price or yield is calculated to a call, this must be stated, and the~~

~~call date and price used in the calculation must be shown.* These are the only instances in which specific call features must be identified on a confirmation.~~

~~The Board understands that confusion may arise when specific call features are noted on confirmations without an adequate description of such information. The Board has determined that confirmations that include specific call information not required to be included under the Board's confirmation rules also must include a notation that other call features exist and must provide clarifying information about the noted call, *e.g.* "first in-whole call." These disclosures should be sufficient to ensure that purchasing dealers and customers will be alerted to the need to obtain additional information.~~

~~The Board cautions dealers to ensure that confirmations of municipal securities with call features clearly describe the securities as "callable." If this information is not included on inter-dealer confirmations, or if specific call information is erroneously noted on the confirmation, purchasing dealers have the right to reclaim the securities under rule G-12(g)(iii)(C)(3).~~

~~* In addition, rule G-15(a)(iii)(D) requires a legend to be placed on customer confirmations of transactions in callable securities which notes that "Call features may exist which could affect yield; complete information will be provided upon request."~~

* * * * *

~~Calculations for Securities with Periodic Interest Payments (Feb. 23, 2016)~~

~~Rule G-33 generally requires that brokers, dealers, and municipal securities dealers ("dealers") effecting transactions in municipal securities compute yields and dollar prices in accordance with the formulas prescribed.~~

~~Prior to an amendment effective February 23, 2016, Rule G-33(b)(i)(B)(2) and, by reference, (b)(ii)(B)(2), provided that, for interest-bearing municipal securities with periodic interest payments and more than six months to redemption, dealers compute the dollar price or yield using a formula that accounted for the present value of all future coupon payments and a semi-annual payment of interest. The formula in Rule G-33(b)(i)(B)(2) now provides a more precise pricing calculation when computing yields and dollar prices on securities with periodic interest payments and more than one coupon payment to redemption. Under the amended pricing formula, rather than presuming a semi-annual~~

~~interest payment, the formula requires factoring in the actual interest payment frequency of the security (*e.g.*, monthly, quarterly or annually).~~

~~The compliance date for Rule G-33, as amended, is July 18, 2016.~~

~~Prior to July 18, 2016, a dealer will be deemed to be in compliance with Rules G-33(b)(i)(B)(2) and G-33(b)(ii)(B)(2) if calculating dollar price or yield for interest-bearing municipal securities with periodic interest payments and more than six months to redemption using the actual interest payment frequency rather than assuming a semi-annual payment. Beginning July 18, 2016, the compliance date for Rule G-33, as amended, all dealers will be required to factor in the actual interest payment frequency in calculating dollar price and yield for such securities.~~

* * * * *

Appendix A: List of All Guidance Reviewed Pursuant to MSRB Notice 2023-08

Guidance Being Amended (14)

- Interpretive Guidance, Callable Securities: "Catastrophe" Calls (Nov. 07, 1977);
- Interpretive Guidance, Callable Securities: Pricing to Call (Jun. 08, 1978);
- Interpretive Guidance, Pricing to Call (Dec. 10, 1980);
- Interpretive Guidance, Original Issue Discount, Zero Coupon Securities: Disclosure of, Pricing to Call Feature (Jun. 30, 1982);
- Interpretive Guidance, Callable Securities: Disclosure (Aug. 23, 1982);
- Interpretive Guidance, Securities Description: Securities Backed by Letters of Credit (Dec. 02, 1982);
- Interpretive Guidance, Callable Securities: Extraordinary Mandatory Redemption Features (Feb. 18, 1983);
- Interpretive Guidance, Put Option Bonds: Safekeeping, Pricing (Feb. 18, 1983);
- Interpretive Guidance, Yield Disclosures: Yields to Call on Zero Coupon Bonds (Jan. 04, 1984);
- Interpretive Guidance, Callable Securities: Pricing to Call and Extraordinary Mandatory Redemption Features (Feb. 10, 1984);
- Interpretive Guidance, Notice of Interpretation on Escrowed-to-Maturity Securities: Rules G-17, G-12 and G-15 (Sep. 21, 1987);
- Interpretive Guidance, Notice Concerning Stripped Coupon Municipal Securities (Mar. 13, 1989);
- Interpretive Guidance, Calculation of Price and Yield on Continuously Callable Securities (Aug. 15, 1989);
- Interpretive Guidance, Confirmation Requirements for Partially Refunded Securities (Aug. 15, 1989).

Guidance Being Fully Retired (10)

- Interpretive Guidance, Uniform Practice and Rule G-15 on Customer Confirmations (Nov. 28, 1977);
- Interpretive Guidance, Confirmation Requirements (Mar. 25, 1980);
- Interpretive Guidance, Confirmation Disclosure Requirements Applicable to Variable-Rate Municipal Securities (Dec. 10, 1980);
- Interpretive Guidance, Confirmation Disclosure: Put Option Bonds (Apr. 24, 1981);
- Interpretive Guidance, Notice Concerning "Zero Coupon" and "Stepped Coupon" Securities (Apr. 27, 1982);
- Interpretive Guidance, Securities Description: Revenue Securities (Dec. 01, 1982);
- Interpretive Guidance, Delivery Requirements: Put Option Bonds (Feb. 27, 1985);
- Interpretive Guidance, Notice Concerning the Application of Board Rules to Put Option Bonds (Sep. 30, 1985);
- Interpretive Guidance, Confirmation Disclosure Requirements for Callable Municipal Securities (Feb. 20, 1986);

- Interpretive Guidance, Calculations for Securities with Periodic Interest Payments (Feb. 23, 2016).

Guidance Previously Retired Through MSRB Notice 2024-07 (9)

- Interpretive Guidance, Confirmation Disclosure: Put Option Bonds (May 11, 1981);
- Interpretive Guidance, Confirmation: Mailing of WAII Confirmation (Apr. 30, 1982);
- Interpretive Guidance, Confirmation Disclosure: Advance Refunded Securities (Jan. 4, 1984);
- Interpretive Guidance, Confirmation Disclosures: Tender Option Bonds with Adjustable Tender Fees (Oct. 3, 1984);
- Interpretive Guidance, Confirmation Disclosures: Tender Option Bonds with Adjustable Tender Fees (Mar. 5, 1985);
- Interpretive Guidance, Callable Securities: Pricing to Call (Mar. 9, 1979);
- Interpretive Guidance, Callable Securities: Pricing Transactions on Construction Loan Notes (Mar. 5, 1984);
- Interpretive Guidance, Agency Transaction: Pricing (Sep. 20, 1979);
- Interpretive Guidance, Securities Description: Prerefunded Securities (Feb. 17, 1998).

Guidance Being Retained Without Change (5)

- Interpretive Guidance, Confirmation: Mailing of WAII, "All or None" Confirmation (Oct. 07, 1982);
- Interpretive Guidance, Automated Clearance: “Internal” Transactions (Sep. 21, 1983);
- Interpretive Guidance, Application of the Board’s Rules to Trades in Misdescribed or Non-Existent Securities (Jan. 12, 1984);
- Interpretive Guidance, Determining Whether Transactions Are Inter-Dealer or Customer Transactions: Rules G-12 and G-15 (May 01, 1988);
- Interpretive Guidance, The Application of Rules G-8, G-12 and G-14 to Specific Electronic Trading Systems (Mar. 26, 2001).

Guidance Previously Retired Through MSRB Notice 2024-10 (2)

- Interpretive Guidance, Disclosure of Pricing: Calculating the Dollar Price of Partially Prerefunded Bonds (May 15, 1986);
- Interpretive Guidance, Confirmation, Delivery and Reclamation of Interchangeable Securities (Aug. 10, 1988).