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**Affected Rules**  
[Rule G-15](#)

## Second Request for Comment on Draft Provisions on Minimum Denominations

### Overview

The minimum denomination of an issue of municipal securities is the minimum principal amount of the municipal security that may be sold or otherwise transferred and is a restriction that is set forth in the bond offering documents. The Municipal Securities Rulemaking Board (MSRB) is making a second request for comment on draft provisions on minimum denominations. The MSRB first sought comment on draft amendments regarding below-minimum denomination customer transactions to be included in existing MSRB Rule G-15(f), which were intended to provide additional exceptions relating to such customer transactions.<sup>1</sup> The MSRB now seeks comment on new MSRB Rule G-49, regarding transactions below the minimum denomination of an issue of municipal securities. Draft Rule G-49 would apply to below-minimum denomination customer and inter-dealer transactions.

Draft Rule G-49 incorporates the prohibition against trading with a customer below the minimum denomination of an issue of municipal securities and two exceptions thereto from existing Rule G-15, on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers. Draft Rule G-49 also includes additional exceptions to the prohibition, revisions to eliminate, in existing and draft exceptions, the requirement that a dealer obtain a written “liquidation” statement confirming that a customer of another dealer fully liquidated the customer’s position, other changes that liberalize certain conditions in existing and draft exceptions, and a provision that limits below-minimum denomination transactions in municipal securities among dealers. Draft Rule G-49, with the additional exceptions and provisions, effectuates the current MSRB policy to support the practical application of the below-minimum

<sup>1</sup> *Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations*, MSRB Notice 2016-13, dated April 7, 2016 (“First Request for Comment”).



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denomination prohibition against trading by providing exceptions that are consistent with the rule's original intent to protect investors that own below-minimum denomination positions without creating additional below-minimum denomination positions where there once was one.<sup>2</sup>

Comments should be submitted no later than October 18, 2016, and may be submitted in electronic or paper form. [Comments may be submitted electronically by clicking here.](#) Comments submitted in paper form should be sent to Ronald W. Smith, Corporate Secretary, Municipal Securities Rulemaking Board, 1300 I Street NW, Suite 1000, Washington, DC 20005. Generally, all comments will be made available for public inspection on the MSRB's website.<sup>3</sup>

Questions about this notice should be directed to Sharon Zackula, Associate General Counsel, at 202-838-1500.

## Summary of Draft Rule G-49

The minimum denomination of an issue of municipal securities is determined by the issuer at issuance.<sup>4</sup> Rule G-15(f), renumbered, with additional draft provisions and revisions, as draft Rule G-49, prohibits a dealer from effecting a customer transaction in a municipal security in an amount lower than the minimum denomination of the issue, provides exceptions to the prohibition, and also limits inter-dealer below-minimum denomination transactions. The draft minimum denomination provisions are set forth as new draft Rule G-49 because the MSRB believes that the regulatory framework applicable to below-minimum denomination transactions will be easier to locate and

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<sup>2</sup> Securities Exchange Act Release No. 45174, Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations (December 19, 2001), 66 FR 67342 (December 28, 2001).

<sup>3</sup> Comments generally are posted on the MSRB website without change. For example, personal identifying information such as name, address, telephone number, or email address will not be edited from submissions. Therefore, commenters should only submit information that they wish to make available publicly.

<sup>4</sup> An issuer may require that its municipal securities be issued in denominations greater than \$1,000 or the customary \$5,000 (*e.g.*, an issuer may seek to restrict sales of its bonds to sophisticated institutional investors due to concerns regarding the risks of the issuer's project, and establish a high minimum denomination, such as \$100,000). There may be other reasons an issuer establishes a high minimum denomination (*e.g.*, for the convenience of dealing with a limited number of investors or, with respect to the specific issue of municipal securities, to be exempted from certain provisions of SEC Rule 15c2-12 under section (d) of the rule).

better understood if the provisions applicable to customer and inter-dealer transactions are combined in a stand-alone rule.

## Background

In 2002, the MSRB amended Rule G-15, adding paragraph (f), to prohibit dealers from effecting a transaction with a customer in an amount below the minimum denomination of the municipal security, and included two exceptions to the prohibition. The exceptions were provided in order to help preserve liquidity for below-minimum denomination positions in municipal securities held by customers.

### Existing Rule G-15(f) Exceptions

The first exception, in existing Rule G-15(f)(ii), permits a dealer to *purchase* from a customer in an amount below the minimum denomination if the dealer determines, either by relying upon customer account information in its possession or upon a written statement by the customer as to its position in the issue, that the customer is selling its entire position. Rule G-15(f)(iii), the second existing exception, permits a dealer to *sell* to a customer an amount below the minimum denomination if the dealer determines that the position being sold is the result of a customer liquidating an entire position below the minimum denomination. The dealer must determine, based on account records in the dealer's possession or upon a written statement provided by the party from which the securities were purchased (*i.e.*, the liquidating customer or another dealer) that the below-minimum denomination position is from a customer that fully and completely liquidated its below-minimum denomination position. When the dealer's determination is made based upon a written statement provided by a party other than the dealer's own customer, from which the securities were purchased, commenters and the MSRB have referred to the determination as the "liquidation statement" requirement. The purpose of this determination (that the prior customer transaction constituted a complete liquidation) is to prevent the creation of additional below-minimum denomination positions held by customers, by preventing multiple dealers, in inter-dealer transactions, from creating additional below-minimum denomination positions that are then placed with customers. In addition, under this existing exception, the dealer must provide written disclosure to the customer that the quantity of securities being sold is below the minimum denomination for the issue, which may, unless the customer has other securities from the issue that can be combined to reach the minimum denomination, adversely affect the liquidity of the position.

### Additional Exceptions Proposed in First Request for Comment

In April 2016, the MSRB requested comment on two additional exceptions for dealer sales to customers, explained in greater detail in the [First Request for Comment](#). Both exceptions were intended to strike an appropriate balance between the policy objectives of allowing dealers additional flexibility in customer transactions involving below-minimum denomination positions to enhance liquidity for customers holding such positions, and not creating any additional outstanding below-minimum denomination positions in such securities.

Under the first previously published additional exception, draft Rule G-15(f)(iii)(B), if a dealer determines that a below-minimum denomination position being sold is the result of a customer liquidating an entire position below the minimum denomination (whether the liquidating customer is a customer of the dealer or of another dealer from whom the dealer obtains such securities), the dealer would be permitted to effect a sale below the minimum denomination with one or more customers that currently own the issue so long as the increment(s) being sold to the customer(s) is consistent with any restrictions in the issuer's authorizing documents, even if the transaction does not result in a customer increasing its position to an amount at or above the minimum denomination. Under this draft exception, a dealer would still be permitted to sell a portion of the below-minimum denomination position to a maximum of one customer that currently does not own a position in the issue, consistent with the exception currently available to dealers in existing Rule G-15(f)(iii).<sup>5</sup>

Under the second previously published additional exception, draft Rule G-15(f)(iv), if a dealer has a position, whether received from a customer or otherwise, that is below, at or above the minimum denomination, the dealer would be permitted to effect a sale below the minimum denomination to a customer that currently owns a below-minimum denomination position, provided that effecting such transaction results in the customer owning a position at or above the minimum denomination; and the dealer could then sell any remaining below-minimum denomination position to one or more

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<sup>5</sup> Consistent with existing Rule G-15(f), this draft exemption would require a dealer effecting a sale to a customer of an amount below the minimum denomination to provide, at or before the completion of the transaction, a written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and that this may adversely affect the liquidity of the position unless the customer has other securities from the issue that can be combined to reach the minimum denomination. This disclosure would be required with respect to each sale to a customer of a position below the minimum denomination, even if the customer maintains a position in the issue that is above the minimum denomination.

customers that currently own positions in the issue, so long as the increments sold are consistent with any restrictions in the issuer's authorizing documents regarding incremental amounts. A dealer could not, however, sell any portion to a customer that does not currently have a position in the issue because the transaction would create a below-minimum position where there previously was none.

#### Draft Rule G-49

Minimum Increments. Both draft additional exceptions described above and published in the First Request for Comment include a condition that a dealer's sale to a customer(s) must be consistent with any restrictions in the issuer's authorizing documents regarding increment amounts ("minimum increment condition"). Several commenters were opposed to the inclusion of the minimum increment condition in the two draft exceptions,<sup>6</sup> raising concerns that the condition would unnecessarily limit the transfer of positions held by customers rather than provide additional flexibility for such customers, the condition would potentially reduce liquidity, and the industry would need additional time to determine the availability and accuracy of minimum increment data, if the minimum increment condition were incorporated in the exceptions. The MSRB originally adopted the prohibition in Rule G-15(f) against trading with a customer in a below-minimum denomination position in part to respond to issuer concerns regarding below-minimum denomination positions being sold to retail customers. In some cases, issuers explicitly stated that higher minimum denominations had been established in light of the risks the issuers attributed to a particular issue, and given their views, such issuers intended that the issuances so identified and subject to a high minimum denomination be placed with institutional investors. Upon considering the concerns raised by commenters in response to the First Request for Comment and the policy originally underlying the prohibition in Rule G-15(f), the MSRB proposes that the minimum increment conditions be removed. To focus on the concerns previously raised by issuers, the MSRB seeks comment on the elimination of the minimum increment conditions in the draft exceptions described above, renumbered as draft Rule G-49(b)(ii)(B) and (b)(iii).

Liquidation Statement. The MSRB also is proposing to revise two exceptions, an existing exception and a draft exception previously published, regarding dealer sales to customers of below-minimum denomination positions. The revision would eliminate the requirement that a dealer, prior to effecting a

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<sup>6</sup> The minimum increment condition was included in the First Request for Comment as part of the draft exceptions under Rule G-15(f)(iii)(B) and (f)(iv). Both exceptions are modified and included in draft Rule G-49 as draft Rule G-49(b)(ii)(B) and (b)(iii).

sale to a customer in a below-minimum denomination position, confirm by obtaining a liquidation statement from a person other than the dealer's customer, such as another dealer, from which the below-minimum denomination position was purchased, that the position is from a customer that fully and completely liquidated its below-minimum denomination position. The MSRB is proposing to eliminate the liquidation statement requirement in response to numerous concerns raised by commenters. Commenters noted that dealers may desire to sell below-minimum denomination positions using alternative trading systems ("ATs"), or, in some cases, broker's brokers, and requiring the liquidation statement becomes an unnecessary impediment to using such trading venues for the transfer of below-minimum denomination positions. Commenters also noted the compliance issues that may arise when a dealer seeking to sell a customer a below-minimum denomination position in securities under either the existing exception or the draft exception, must rely upon another dealer, or an ATS or a broker's broker, to provide a liquidation statement to verify that the position the dealer intends to sell represents the complete liquidation of a below-minimum denomination position by a prior selling customer. Commenters stated that a dealer may be subject to disciplinary action, including penalties for non-compliance, if a dealer cannot prove the liquidation occurred. Given these concerns, commenters believed that the requirement to verify the prior customer's complete liquidation of its position discourages many traders from bidding on below-minimum denomination positions. In light of the views that the liquidation statement requirement, which was incorporated in two of the three existing or draft exceptions providing for sales to customers, reduces the utility of any such exception, and does not enhance liquidity and trading options for dealers and their customers, the MSRB is proposing in draft Rule G-49 to revise the existing exception and the draft exception to delete the liquidation statement requirement. The MSRB believes, however, that the requirement that a dealer confirm that a selling customer fully liquidated its position should continue to apply to a dealer that buys from its customer and then sells to another of its customers. In such cases, the dealer is in a position to know or make inquiry of its customer to determine that its customer has fully liquidated its position. Specifically, the MSRB seeks comment on the elimination of the liquidation statement requirement in draft Rule G-49(b)(ii)(A)<sup>7</sup> and draft Rule G-49(b)(ii)(B), and also seeks comment on the retention in the same provisions of the requirement that a dealer confirm, before selling a below-minimum denomination position to its customer, that

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<sup>7</sup> The exception in draft Rule G-49(b)(ii)(A) is the exception set forth in existing Rule G-15(f)(iii).

the selling customer has fully liquidated its position when the dealer buys from its customer and then sells to another of its customers.

Limitations Applicable to Inter-Dealer Transactions. The MSRB believes that if the liquidation statement requirement is eliminated as proposed, a new safeguard would be needed to substitute for the liquidation statement in order to avoid, in inter-dealer transactions, the creation of additional below-minimum denomination positions that subsequently may be placed with customers. To address this issue, the MSRB also seeks comment on draft Rule G-49(c), a provision which prohibits a dealer, in an inter-dealer trade, from selling less than all of a below-minimum denomination position that such dealer acquired either from a customer that fully liquidated its below-minimum denomination position or from another dealer.

Customer Account Records; Disclosure. Draft Rule G-49(b)(iv) provides that a dealer effecting a purchase from or a sale to a customer under section (b) of the draft rule must determine its customer's position in the subject security based upon the account records in the dealer's possession or upon a written statement provided to the dealer by its customer. In addition, in sales to customers in compliance with the exceptions set forth in draft subsection (b)(ii) or (b)(iii), the dealer is required to give or send to the customer a written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and this may adversely affect the liquidity of the customer's position unless the customer has other securities from the issue that can be combined to reach the minimum denomination of the issue. The draft rule also provides that the written statement may be included in the customer's confirmation or provided on a separate document.

Draft Rule G-49(b)(iv) differs from existing Rule G-15(f) and the draft rule text previously proposed in two material respects. Draft Rule G-49(b)(iv) omits the requirement regarding the provision or receipt of a liquidation statement among dealers. Instead, the dealer is required to determine the position only of the dealer's own customer in a subject security. Like the existing provision and the draft rule text previously proposed, the dealer's determination would be made based upon the account records in the dealer's possession or upon a written statement provided to the dealer by its customer. In addition, in connection with the disclosure requirements incorporated in draft Rule G-49(b)(iv), commenters noted that if a customer is brought up to or over the minimum denomination of an issue under the draft exception in Rule G-49(b)(iii), the disclosures designed to inform a customer holding a below-minimum denomination position that liquidity may be adversely impacted may not be necessary. The MSRB agrees at this juncture and requests comment on omitting this disclosure requirement as to a specific customer



brought up to or over the minimum denomination pursuant to a dealer sale to such customer under draft Rule G-49(b)(iii).

The MSRB believes that draft Rule G-49, which addresses additional trading scenarios and eliminates the liquidation statement requirement, which commenters believe inhibited trading by dealers in below-minimum denomination positions to the detriment of customers, strikes an appropriate balance. The draft rule is intended to provide enhanced liquidity for customers that hold below-minimum denomination positions in municipal securities, while restricting the creation of additional below-minimum positions.

The MSRB also again reminds dealers that other rules apply to below-minimum denomination transactions with customers, including (but not limited to) MSRB Rule G-18, on best execution; MSRB Rule G-19, on suitability of recommendations and transactions; and MSRB Rule G-47, on time of trade disclosure, supplementing the protections afforded by existing Rule G-15(f).<sup>8</sup> Readers should refer to the First Request for Comment, and the applicable MSRB rules, for additional information regarding dealer's obligations to customers under these rules.

## Economic Analysis

### 1. The need for draft Rule G-49 and how it will meet that need.

As noted previously, the need for draft Rule G-49 (previously, draft amendments to existing Rule G-15(f)) arises primarily from a recognition that there are trading scenarios prohibited by the existing rule that, if allowed, would likely increase the ability of investors currently holding below-minimum denomination positions to exit those positions and/or reduce the burden on dealers associated with implementing existing Rule G-15(f) while not increasing the net number of below-minimum denomination positions.

While existing Rule G-15(f) provides a mechanism for a customer with a below-minimum denomination position to either exit his or her position entirely or purchase a portion of a municipal securities issue below the minimum denomination so that the customer may own, as a result of the purchase, a position at or above the minimum denomination of the issue, in practice the existing options may be unattractive to dealers under some scenarios.

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<sup>8</sup> The obligations of a dealer differ if the conditions are met for treating the customer as a Sophisticated Municipal Market Professional (SMMP). See MSRB Rule G-48.



Dealers may be dissuaded from utilizing the existing exceptions in Rule G-15(f) to effect a transaction in a security subject to a minimum denomination given the likely difficulty of identifying a buyer willing and able to purchase a below-minimum denomination position. As a result, customers with below-minimum denomination positions, including those that acquired the positions as a result of divorce or inheritance, may find it more difficult to access liquidity.

Dealers may also be dissuaded from utilizing the existing or the previously proposed exceptions to Rule G-15(f) if they plan to utilize an alternative trading system or brokers-broker to trade bonds acquired under the exceptions given the view that other dealers are less willing to bid on below-minimum denomination positions given the requirement of the bidding dealer to obtain a liquidation statement from the selling dealer. This impediment to the use of inter-dealer trading platforms may further impair liquidity and harm investors.

Draft Rule G-49 seeks to provide additional exceptions and to reduce burdens on dealers that may make it easier for investors with below-minimum denomination positions to access liquidity.

## **2. Relevant baselines against which the likely economic impact of elements of draft Rule G-49 should be considered.**

The relevant baseline against which the likely economic impact of draft Rule G-49 should be considered is existing Rule G-15(f), which generally prohibits a dealer from effecting a transaction with a customer below the minimum denomination specified in an issuer's bond documents and requires dealers purchasing below-minimum denomination positions from other dealers to obtain a liquidation statement. In addition, as noted above, Rules G-18, G-19 and G-47 impose regulatory requirements on dealers regarding customer transactions that supplement the protections afforded by Rule G-15(f) with respect to minimum denominations.

## **3. Identifying and evaluating reasonable alternative regulatory approaches.**

The MSRB recognizes that there are alternatives to the approach taken in draft Rule G-49. The MSRB could propose additional exceptions and/or further liberalize one or more of the existing exceptions. While the MSRB recognizes that such alternatives might reduce the burden on dealers and increase the liquidity of below-minimum denomination positions, the MSRB believes that they would also be likely to increase the number of below-

minimum denomination positions that potentially put customers at risk. The MSRB could also eliminate all exceptions. While the MSRB believes that, given the current market, below-minimum denomination positions are generally unfavorable, the MSRB recognizes that completely eliminating the ability of investors to exit these positions would likely result in greater harm.

#### **4. Assessing the benefits and costs of draft Rule G-49.**

The MSRB policy on economic analysis in rulemaking addresses consideration of the likely costs and benefits of draft Rule G-49 fully implemented against the context of the economic baseline discussed above. The MSRB is seeking, as part of this request for comment, data or studies relevant to the determination of the number of existing below-minimum denomination positions, the relative difficulty of exiting or adding to these positions, the impact of these positions on customers, and the costs the existing rule imposes on dealers.

Preliminarily, the MSRB has evaluated the benefits and costs associated with draft Rule G-49 as follows:

##### **Benefits**

The MSRB believes that draft Rule G-49 may reduce the number of below-minimum denomination positions, increase the ability of customers currently holding below-denomination positions to exit those positions and/or reduce the burden on dealers associated with implementing the applicable MSRB below-minimum denomination regulations.

##### **Costs**

The MSRB's analysis of the potential costs does not consider all of the costs associated with the proposal, but instead focuses on the incremental costs attributable to it that exceed the baseline state. The costs associated with the baseline state are, in effect, subtracted from the costs associated with draft Rule G-49 to isolate the costs attributable to the incremental requirements of the draft rule.

The MSRB recognizes that some dealers may incur costs should they utilize either of the two additional proposed exceptions, but as the choice of whether and when to exercise these exceptions is wholly within a dealer's discretion, the MSRB does not believe that the creation of the exceptions *per se* would result in any new costs for dealers.

The MSRB also recognizes that some dealers may incur costs associated with the proposed new requirement in draft Rule G-49 regarding inter-dealer transactions, but based on prior comments, the MSRB believes that the

benefit of eliminating the liquidation statement, which is facilitated by the proposed addition of the provision regarding inter-dealer transactions, will outweigh any costs.

The MSRB does not believe that draft Rule G-49 is likely to result in a net increase in the number of below-minimum denomination positions. The MSRB also has no reason to believe that any new below-minimum denomination positions associated with draft Rule G-49 would be held by a significantly different or less sophisticated group of customers than the group currently holding below-minimum denomination positions. Therefore, the MSRB does not believe that there are any additional costs for customers and the draft rule may, as discussed above, actually reduce costs by increasing liquidity.

The MSRB is not aware of any available data that would support a quantitative estimate of the overall impact of draft Rule G-49. The MSRB specifically seeks comments that would inform a quantitative estimate of the benefits and costs associated with the draft rule.

#### **Effect on Competition, Efficiency and Capital Formation**

The MSRB believes that draft Rule G-49 may improve capital formation and efficiency to the extent it results in improved access to liquidity for those customers holding below-minimum denomination positions.

The MSRB believes that larger dealers with larger inventories and larger numbers of customers may be better positioned to make use of these exceptions, but does not believe this significantly improves their competitive position or significantly burdens dealers that may be less able to effect transactions pursuant to the exceptions.

### **Questions**

The MSRB seeks public comment on all aspects of the proposal and specifically requests comment concerning the following questions, as well as any other comments on the subject of transactions in amounts below the minimum denomination. The MSRB welcomes information regarding the potential to quantify the likely benefits and costs of draft Rule G-49. The MSRB requests comment on any competitive or anticompetitive effects, as well as efficiency and capital formation effects of draft Rule G-49 on any market participants. The MSRB particularly welcomes statistical, empirical and other data from commenters that may support their views and/or support or refute the views or assumptions in this request for comment.

1. As designed, does draft Rule G-49 serve to improve liquidity for investors without increasing the number of customers maintaining positions in municipal securities below the minimum denomination?
2. Is there quantitative or qualitative data available that would allow the MSRB to estimate the number of investors holding below-minimum denomination positions?
3. Would any or all exceptions continue to appropriately balance the interests of issuers, customers, dealers and the market as a whole?
4. Are there other trading scenarios that would likewise enhance liquidity for customers without increasing the number of customers holding a position below the minimum denomination?
5. Should the exception permitting a dealer to purchase from a customer a position below the minimum denomination apply when that customer's below-minimum denomination position is a result of an allocation in a managed account from a position purchased in an amount equal to or above the minimum denomination?
6. Are there other scenarios not already identified that cause a customer position to be below the minimum denomination?
7. Should dealers have to provide the written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and that this may adversely affect the liquidity of the position if the dealer has already determined that the sale to the customer below the minimum denomination results in the customer being at or above the minimum denomination?
8. Is there quantitative or qualitative information available that would allow the MSRB to estimate the economic impact of the limited liquidity of below-minimum denomination positions and/or the potential effect of the draft amendments?
9. Do the alternatives identified above represent a comprehensive set of reasonable regulatory alternatives or are there alternative methods the MSRB should consider regarding permissible transactions below the minimum denomination of an issue that would be more effective and/or less burdensome?

10. To what extent have MSRB registrants found it difficult or costly to comply with the existing rule? If possible, please quantify the impact of these challenges.
11. What is, per firm, the annual cost of compliance with existing Rule G-15(f)?
12. Is there a reasonable basis or framework upon which the MSRB might evaluate the extent to which draft Rule G-49 would impact the burden of compliance on dealers?
13. Are there other relevant baselines that the MSRB should consider when evaluating the economic impact of the proposal?
14. Are commenters aware of any studies assessing the impact of investors holding below-minimum denomination positions?

September 27, 2016

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## Text of Draft Amendments\*

### Rule G-15: Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers

(a) – (e) No change.

(f) Reserved. ~~Minimum Denominations.~~

~~(i) Except as provided in this section (f), a broker, dealer or municipal securities dealer shall not effect a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue.~~

~~(ii) The prohibition in subsection (f)(i) of this rule shall not apply to the purchase of securities from a customer in an amount below the minimum denomination if the broker, dealer or municipal securities dealer determines that the customer's position in the issue already is below the minimum denomination and that the entire position would be liquidated by the transaction. In determining whether this is the case, a broker, dealer or municipal securities dealer may rely either upon customer account information in its possession or upon a written statement by the customer as to its position in an issue.~~

~~(iii) The prohibition in subsection (f)(i) of this rule shall not apply to the sale of securities to a customer in an amount below the minimum denomination if the broker, dealer or municipal securities~~

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\* Underlining indicates new language; strikethrough denotes deletions.

~~dealer determines that the securities position being sold is the result of a customer liquidating a position below the minimum denomination, as described in subsection (f)(ii) of this rule. In determining whether this is the case, a broker, dealer or municipal securities dealer may rely upon customer account records in its possession or upon a written statement provided by the party from which the securities are purchased. A broker, dealer or municipal securities dealer effecting a sale to a customer under this subsection (iii) shall at or before the completion of the transaction, give or send to the customer a written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and that this may adversely affect the liquidity of the position unless the customer has other securities from the issue that can be combined to reach the minimum denomination. Such written statement may be included on the customer's confirmation or may be provided on a document separate from the confirmation.~~

(g) No change.

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### **Rule G-49: Transactions Below the Minimum Denomination of an Issue**

#### **(a) Prohibition Applicable to a Customer Transaction**

Except as provided in section (b), a broker, dealer or municipal securities dealer ("dealer") shall not effect a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue.

#### **(b) Exceptions to Prohibition Applicable to a Customer Transaction**

(i) The prohibition in section (a) of this rule shall not apply to the purchase of securities from a customer in an amount below the minimum denomination if the dealer determines that the customer's position in the issue already is below the minimum denomination and the entire position of the customer would be liquidated by the transaction.

(ii) The prohibition in section (a) of this rule shall not apply to the sale of securities to a customer in an amount below the minimum denomination, provided that the below-minimum denomination position being sold is the same amount as the below-minimum denomination position that the dealer acquired from a customer in a transaction where such customer fully liquidated its position in the security, as described in section (b)(i) of this rule; or, the below-minimum denomination position being sold was acquired by the dealer in an inter-dealer transaction and the amount being sold under paragraph (A) or, in the aggregate, under paragraph (B), of this subsection is the same amount as the below-minimum denomination position that the dealer acquired in the inter-dealer transaction. In effecting such a sale to a customer in an amount below the minimum denomination, the dealer may:

(A) Sell the entire below-minimum denomination position to one customer; or

(B) Sell the entire, or a portion of, the below-minimum denomination position to one or more customers that have a position in the issue and any remainder to a maximum of one customer that does not have a position in the issue, even if the transaction(s) do not result in a customer increasing its position to an amount at or above the minimum denomination.

(iii) The prohibition in section (a) of this rule shall not apply to a sale of securities to a customer in an amount below the minimum denomination if the customer already has a position in the issue below the minimum denomination and the sale will result in the customer having a position at or above the minimum denomination. The dealer may then sell any remaining portion of the below-minimum denomination position to one or more customers that already have a position in the issue.

(iv) A dealer effecting a purchase from or sale to a customer under this section (b) shall determine its customer's position in the subject security based upon the account records in the dealer's possession or upon a written statement provided to the dealer by its customer. A dealer effecting a sale to a customer under subsection (ii) or (iii), shall at or before the completion of the transaction, give or send to the customer a written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and this may adversely affect the liquidity of the position unless the customer has other securities from the issue that can be combined to reach the minimum denomination of the issue. A dealer shall not be required to give or send a customer such written statement if, pursuant to subsection (b)(iii) of this rule, the dealer effects the sale of securities to the customer and the sale results in the customer having a position at or above the minimum denomination. Such written statement may be included on the customer's confirmation or may be provided on a document separate from the confirmation.

(c) Limitations Applicable to a Transaction Between Dealers

A dealer shall not sell municipal securities issued after June 1, 2002 to another dealer in an amount below the minimum denomination of the issue, unless the dealer acquired the below-minimum denomination position from a customer in compliance with section (b)(i) of this rule or acquired the below-minimum denomination position from another dealer, and sells such securities to a dealer in a transaction at an amount that is equal to or greater than the amount of the below-minimum denomination position acquired.