

MSRB Rules The Municipal Securities Rulemaking Board

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MSRB: Who Are They?

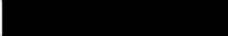
- <u>Overview</u>:
 - The Municipal Securities Rulemaking Board ("MSRB") was established in 1975 by Congress to develop rules regulating securities firms and banks involved in underwriting, trading, and selling municipal securities.
 - The Board sets standards for all municipal securities dealers and is a selfregulatory organization ("SRO") subject to oversight by Securities and Exchange Commission (SEC).
- **<u>Board Structure</u>**: 15 members- five representatives of bank dealers, five representatives of securities firms, and five public members not associated with any bank dealer or securities firm.
- **<u>Funding</u>**: All Board operations are financed by fees and assessments paid by the dealer community.





MSRB: What do they do?

- <u>Scope of Authority</u>: The Board <u>only</u> has authority to make rules regulating the municipal securities activities of banks and securities firms and <u>does not</u> <u>have authority over issuers of municipal securities or investors</u>. (Neither does the SEC, but see Rule 15c2-12.)
- <u>**Rulemaking Authority**</u>: The Board has broad rulemaking authority over municipal securities dealers' activities, including:
 - professional qualification standards
 - fair practice
 - recordkeeping
 - confirmation, clearance, and settlement of transactions
 - the scope and frequency of compliance examinations
 - the nature of securities quotations.
- Enforcement of Board Rules: Enforcement delegated to NASD for broker/dealers; bank regulators for capital markets divisions of banks.



Relationships That Drive Results





MSRB: Rulemaking Procedure

• Upon adoption of a rule by the Board, it must be filed with the SEC for review.





Political Contributions Rule G-37

- Prohibits <u>dealer</u> from engaging in <u>municipal securities business</u> with an <u>issuer</u> for 2 years after any <u>contribution</u> to an <u>official of such issuer</u>.
- Encompasses: (i) the broker/dealer firm; (ii) any <u>municipal finance</u> <u>professional</u> associated with such broker/dealer; or (iii) any PAC controlled by the broker/dealer or any municipal finance professional.
- Requires dealers to record and disclose political contributions.
- "Contribution" defined as any gift, subscription, loan, advance, or deposit of money or anything of value made for transition or inaugural expenses incurred by a successful candidate.
- <u>Only Exception (de minimus)</u>: Certain contributions made to issuer officials by municipal finance professionals -<u>if</u> such professionals are entitled to vote for such official, <u>and</u> contributions by any such professional do not exceed, in total, \$250 to each official, per election (eg—Primary and general election).
- Note: Rule does NOT cover federal elections





Old Rule G-38

- Required dealers who used *consultants* to:
 - evidence the consulting arrangement in writing;
 - to disclose, in writing, to an issuer with which it is engaging or seeking to engage in municipal securities business information on consulting arrangements relating to such issuer; and
 - to submit to the Board, on a quarterly basis, reports of all consultants used by the dealer, amounts paid to such consultants, and certain political contribution and payment information from the consultant.





New Rule G-38

- In 2005, MSRB changed Rule G-38 to outright ban on broker/dealer use of such consultants.
- Prohibits brokers, dealers or municipal securities dealers from providing or agreeing to provide, directly or indirectly, payment to any person who is not an *affiliated person* for solicitation of municipal securities business.
- "Affiliated person" is any person who is a partner, director, officer, employee or registered person of the broker, dealer or municipal securities dealer (or similar status for bank dealer) or any affiliated company.





Other Information

- See <u>www.msrb.org</u>
- Recent Developments



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