MSRB
Municipal Securities
Rulemaking Board

May 7, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
Station Place
100 F Street, NE
Washington, DC 20549

Re: File No. SR-MSRB-2006-10

Dear Ms. Morris:

On November 24, 2006, the Municipal Securities Rulemaking Board (the "MSRB") filed with the Securities and Exchange Commission (the "Commission") a proposed rule change consisting of amendments to Rule G-27 on supervision to make the rule consistent with NASD requirements on supervision (the "proposed rule change").[1] The Commission published the proposed rule change for comment in the Federal Register.[2] In response, the Commission received two comment letters,[3] and has requested that the MSRB provide its response to these letters.

SIFMA's Comment Letter

In its comment letter, SIFMA noted that the purpose of the proposed rule change is to conform MSRB requirements on supervision to NASD requirements. SIFMA stated that:

> Although the text of the rule change appears very similar to the corresponding NASD Rules, certain language in the accompanying Notice may be interpreted to

[1] File No. SR-MSRB-2006-10.

[2] Exchange Act Release No. 54930 (December 13, 2006), 71 FR 244 (December 20, 2006).

[3] Letter from Leslie M. Norwood, Vice President and Assistant General Counsel, Securities Industry and Financial Markets Association ("SIFMA") to Nancy M. Morris, Commission Secretary, dated January 31, 2007; and letter from Tab Timorth Stewart, Assistant General Counsel, Bank of America Securities to Nancy M. Morris, Commission Secretary, dated January 31, 2007.

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> imply that a principal must undertake all supervisory acts, and delegation of such tasks to non-principals is impermissible....[T]he Association would appreciate clarification of the language in the Notice to make clear that principals may delegate day-to-day supervisory activities to non-principals.

In response to SIFMA's request for clarification concerning delegation, the MSRB notes that the proposed rule change states that:

> The MSRB intends generally that the provisions of Rule G-27 be read consistently with the analogous NASD provisions, unless the MSRB specifically indicates otherwise. Thus, relevant NASD interpretations would be presumed to apply to the comparable MSRB provision, subject to the MSRB's right to make distinctions when necessary and appropriate.

NASD has previously stated that "certain supervisory **tasks** may be delegated to a registered representative. However, in all cases, ultimate supervisory **responsibility**...must be assigned to one or more appropriately registered principals." [Emphasis in original.][4] The MSRB believes that this guidance applies equally to Rule G-27 – both as currently written and pursuant to the proposed rule change.

Bank of America's Comment Letter

Bank of America expressed its support for the proposed rule change "in principle" but believes it will create an unnecessary hardship on dealers in one specific area. Under current NASD requirements and the MSRB's proposed amendments, dealers must designate one or more appropriately registered principals in each office of supervisory jurisdiction ("OSJ") and each such principal must be located on-site in each OSJ. Bank of America stated that:

> ...this requirement is not practical in instances where...there is a very small number of registered associates located in that office (and in many cases, only one)....This is often the case in connection with regional municipal investment banking offices. Such offices are certainly involved in the structuring of public offerings or private placements [and thus must be designated an OSJ]...Typically, such offices are supervised by a municipal securities principal in another office, rather than by an on-site municipal securities principal.

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4 *See* Notice to Members 99-45 (June 1999), which provided guidance on supervisory responsibilities.

Bank of America stated that requiring each such office to have an on-site municipal securities principal for supervision of the activities in that office "adds an undue burden to dealers that, in many cases, is either impractical or not cost effective."

The MSRB understands that in the equities market, which is subject to NASD's supervisory requirements, there are many one-person offices (which are part of a larger firm, *i.e.*, a firm that constitutes more than that one OSJ) and which, as OSJ's, are involved in structuring corporate financing. We further understand that such functions, when performed at an OSJ, are significant enough to warrant supervision by an on-site principal who is permanently located in that office. In the case of the one-person OSJ described by Bank of America, the practical effect of the proposed rule change on bank dealers would be to require that one person to be registered as a municipal securities principal, just as NASD requires securities firms to register as a principal any one-person OSJ. As noted above, the purpose of the proposed rule change is to promote regulatory consistency, and the MSRB does not believe that the situation described by Bank of America justifies deviating from this purpose.

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If you have any questions, please do not hesitate to contact me.

Sincerely,

Jill C. Finder

Jill C. Finder
Associate General Counsel

cc: Martha Mahan Haines, Chief, Office of Municipal Securities, SEC