

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:

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

(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 subparagraph (v)(B) of section (c) of this rule. [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] For purposes of subparagraph (ii)(A) of section (e) of this rule [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.

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Interpretive Guidance¹

Yield Disclosures: Yields to Call on Zero Coupon Bonds

... {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.

¹ Braces are used in this Exhibit 5 in place of brackets that exist in the original text that is being amended by this proposed rule change in order to avoid confusion with the use of brackets to indicate deletions in this Exhibit 5. Upon approval of the proposed rule change, the amended text will include brackets wherever braces are used herein.

* 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).]

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[Confirmation Disclosure Requirements for Callable Municipal Securities, February 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."]

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Notice of Interpretation on Escrowed-to-Maturity Securities: Rules G-17

[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

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.]

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Notice Concerning Clearance and Settlement of Stripped Coupon Municipal Securities

[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 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).]

[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)(l) 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.

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Confirmation Requirements for Partially Refunded Securities

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.

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].

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Calculation of Price and Yield on Continuously Callable Securities

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)(1) and G-15(a)(v)(1)] 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.

- 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).