

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65679, File No. SR-MSRB-2011-17)

November 3, 2011

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of Proposed Rule Change Regarding Professional Qualifications and Information Concerning Associated Persons

I. Introduction

On September 13, 2011, the Municipal Securities Rulemaking Board (“MSRB” or “Board”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change consisting of amendments to Rule G-3, on professional qualifications, and Rule G-7, on information concerning associated persons. The proposed rule change was published for comment in the Federal Register on September 30, 2011.³ The Commission received one comment letter regarding the proposed rule change and the MSRB’s response to that comment letter.⁴

This order approves the proposed rule change.

II. Background and Description of Proposal

MSRB Rule G-3(a)(i) defines a municipal securities representative as a natural person associated with a broker, dealer or municipal securities dealer (“dealer”), other

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 65393 (September 26, 2011), 76 FR 60953 (the “Commission’s Notice”).

⁴ See letter from Marian H. Desilets, President, Association of Registration Management, Inc., dated October 7, 2011, and letter from Margaret C. Henry, General Counsel, Market Regulation, MSRB, dated October 28, 2011.

than a person whose functions are solely clerical or ministerial, whose activities include one or more of the following:

1. underwriting, trading or sales of municipal securities;
2. financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
3. research or investment advice with respect to municipal securities; or
4. any other activities that involve communication, directly or indirectly, with public investors in municipal securities provided, however, that the activities enumerated in 3 and 4 above are limited to such activities as they relate to the activities enumerated in 1 and 2 above.

An individual seeking to become qualified as a municipal securities representative must pass either of two qualification examinations – the Municipal Securities Representative Qualification Examination (Series 52) or the General Securities Registered Representative Examination (Series 7).

On September 7, 2011, FINRA filed with the Commission a proposed rule change to restructure the Series 7 examination to focus on a broader range of securities products available for sale by registered representatives. The effect of these changes would be a de-emphasis on non-sales aspects of the activities of securities professionals. In focusing on general principles applicable to the buying and selling of a broad range of securities, rather than specific products, the restructured Series 7 examination would reduce the number of questions that test for specific knowledge of municipal securities and the rules of the MSRB. Given the shift in emphasis of the Series 7 examination and the reduced number of municipal questions, in the view of the MSRB, passage of the Series 7

examination would no longer represent a useful gauge of whether a securities professional was qualified to perform municipal securities activities other than sales to, and purchases from, customers⁵ of municipal securities (“sales activities”).

As a result of this restructured Series 7 examination, the MSRB filed the proposed rule change consisting of amendments to MSRB Rule G-3, on professional qualifications. The proposed rule change would provide that the Series 7 examination would no longer qualify individuals as “municipal securities representatives,” unless they were engaged solely in sales activities or they passed the Series 7 examination prior to the effective date of the proposed rule change. Instead, passage of the Series 52 examination would be required for any municipal securities activities other than sales activities.

The proposed rule change would create a sub-category of municipal securities representative referred to as a “municipal securities sales limited representative” and would apply to individuals whose activities with respect to municipal securities are limited exclusively to sales activities. The proposed rule change would provide that an individual could qualify as a municipal securities sales limited representative by passage of the Series 7 examination. Other individuals would be required to pass the Series 52 examination in order to qualify as full municipal securities representatives, unless they had passed the Series 7 examination prior to the effective date of the proposed rule change and had maintained this registration.

The proposed rule change would also require a municipal securities limited representative who wished to become a municipal securities principal to pass the Series

⁵ “Customer” is defined in MSRB Rule D-9 as “any person other than a broker, dealer or municipal securities dealer acting in its capacity as such or an issuer in transactions involving the sale by the issuer of a new issue of its securities.”

52 examination prior to taking the Series 53 municipal securities principal examination. Otherwise, the proposed amendments to Rule G-3 would not distinguish between “municipal securities sales limited representatives” and other “municipal securities representatives.”

The MSRB also filed proposed amendments to MSRB Rule G-7, on information concerning associated persons. Rule G-7 requires brokers, dealers and municipal securities dealers (“dealers”) to keep records concerning their associated persons, including the category of function they perform “whether municipal securities principal, municipal securities sales principal, municipal securities representative or financial and operations principal.” The proposed rule change would add “municipal securities sales limited representative” to that list.⁶ Additionally, the proposed rule change would streamline Rule G-7(b) by simply requiring that dealers obtain either Form U4 (in the case of non-bank dealers) or Form MSD-4 (in the case of bank dealers), rather than repeating the categories of information required by those forms.

III. Discussion of Comments and MSRB’s Response

The Commission received one comment letter from the Association of Registration Management, Inc. and a response from the MSRB to the comment letter.⁷

The commenter expressed concern about the number of individual product and regulation specific examinations proposed, introduced or reintroduced within the past 18 months, and stated that these have caused considerable burden on the industry to

⁶ The proposed rule change would also add “municipal fund securities limited principal” to this list to reflect the previous creation of this separate category.

⁷ See supra note 4.

effectively implement standards within firms to comply with ongoing registration requirements. The commenter further stated that this protocol of individual exams is making it difficult for registered persons to fully and easily understand what is required at all times to ensure and remain compliant.

The MSRB responded that the commenter's letter mistakenly states that the MSRB's Series 52 and 53 examinations were among those new examinations and that comments of that nature are more appropriately addressed to the Commission or FINRA. The MSRB stated that it only took action with respect to the Series 7 qualification because of FINRA's decision to change the focus of the exam.

The commenter further stated that the revised rule could potentially require larger firms to have many of its registered representatives obtain an additional license to ensure continuity and coverage across all business lines, and that it is not clear if firms will be required to apply for "MR position codes" in order for their associated persons to be grandfathered. The MSRB responded that a dealer need take no action in order for its associated persons to be grandfathered.

The commenter also inquired whether the MSRB will permit FINRA to grandfather additional associated persons who might have let their Series 7 registrations lapse before November 7, 2011. The MSRB responded that the proposal would not permit such additional grandfathering.

The commenter requested that the effective date of the MSRB proposal be delayed until late first quarter of 2012 at the earliest to allow firms to be able to adequately identify and prepare (budget, staffing, etc.) for compliance as well as allow member firms to meet other already announced regulatory obligations along with year-

end renewal process workloads and annual training requirements. The commenter further requested consideration of the fact that the industry had not been apprised of the change until nearly 45 days prior to the proposed implementation, stating that such timing will cause an unnecessary hardship.

The MSRB responded that it made the decision to have the changes to Rule G-3 take effect at the same time as FINRA's changes to the Series 7 examination and that FINRA's revised Series 7 will begin to be implemented on November 7, 2011. The MSRB further stated that at that time, the number of municipal questions will be reduced, and those questions will address only sales activities. Accordingly, the MSRB stated that such examination would no longer assess an associated person's ability to perform other municipal securities activities in a competent manner, so no delay in the effective date of the Rule G-3 changes is appropriate.

The Commission has carefully considered the commenter's concerns about the MSRB's proposed changes to the licensing requirements for associated persons of brokers, dealers or municipal securities dealers for municipal securities activities other than sales to customers, the scope of the "grandfather" provisions, and the effective date of the proposed rule change, and does not believe the proposed changes are inconsistent with the Exchange Act.

IV. Discussion and Commission Findings

The Commission has carefully considered the proposed rule change, the comment letter received, and the MSRB's response to the comment letter and finds that the proposed rule change is consistent with the requirements of the Exchange Act and the

rules and regulations thereunder applicable to the MSRB.⁸ The Commission believes that the proposed rule change is consistent with the provisions of Section 15B(b)(2)(A) of the Exchange Act, which authorizes the MSRB to prescribe “standards of training, experience, competence, and such other qualifications as the Board finds necessary or appropriate in the public interest or for the protection of investors and municipal entities or obligated persons.” Section 15B(b)(2)(A) of the Exchange Act also provides that the Board may appropriately classify municipal securities brokers, municipal securities dealers, and municipal advisors and persons associated with municipal securities brokers, municipal securities dealers, and municipal advisors and require persons in any such class to pass tests prescribed by the Board.

The proposed rule change is also consistent with the provisions of Section 15B(b)(2)(A) of the Exchange Act in that the proposed rule change will ensure that individuals seeking to engage in more than sales activities will be tested on their qualification and competency to engage in such other municipal securities activities. These individuals will be required to pass an examination that includes questions both on municipal securities and the municipal markets and on U.S. government, federal agency and other financial instruments, economic activity, government policy, factors affecting interest rates, and applicable federal securities laws and regulations. The proposed rule change will also more closely align the information dealers are required to obtain pursuant to Rule G-7 with the information already required by FINRA and the bank regulators, thereby reducing the administrative burden on such dealers.

⁸ In approving the proposed rule change, the Commission notes that it has considered the proposed rule’s impact on efficiency, competition and capital formation. 15 U.S.C. 78c (f).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,⁹ that the proposed rule change (SR-MSRB-2011-17) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Kevin M. O'Neill
Deputy Secretary

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).