

# MSRB Notice

## 2018-19

### Publication Date

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### Stakeholders

Municipal Securities  
Dealers, Municipal  
Advisors

### Notice Type

Request for Comment

### Comment Deadline

September 14, 2018

### Category

Fair Practice

### Affected Rules

[Rule G-21](#), [Rule G-40](#)

## Request for Comment on Draft Frequently Asked Questions Regarding Use of Social Media under MSRB Advertising Rules

### Overview

The Municipal Securities Rulemaking Board (MSRB) requests comment on a draft set of frequently asked questions (FAQs) regarding the use of social media by brokers, dealers or municipal securities dealers (collectively, “dealers”), as part of their municipal securities activities, or municipal advisors, as part of their municipal advisory activities. In particular, these draft FAQs illustrate the application to social media of MSRB G-21, on advertising by dealers, and of MSRB Rule G-40, on advertising by municipal advisors (Rule G-21, together with Rule G-40, the “advertising rules”).

The MSRB invites market participants and the public to submit comments in response to this request, along with any other information that they believe would be useful to the MSRB in developing these FAQs. Information may be submitted through September 14, 2018 in electronic or paper form.

[Information provided in response to this request may be submitted electronically by clicking here.](#) Information submitted in paper form should be sent to Ronald W. Smith, Corporate Secretary, MSRB, 1300 I Street, NW, Washington, DC 20005. Generally, the MSRB will make available for public inspection on the MSRB’s website all information submitted.<sup>1</sup>

Questions about this request for comment should be directed to Pamela K. Ellis, Associate General Counsel, at 202-838-1500.

<sup>1</sup> Comments are generally posted on the MSRB’s 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 only should submit information that they wish to make publicly available.



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## Background

Recent amendments to Rule G-21 and new Rule G-40 become effective on February 7, 2019. During the development of the amendments to Rule G-21 and of new Rule G-40, the MSRB received requests for guidance regarding the use of social media by a dealer or municipal advisor (dealers, together with municipal advisor, a “regulated entity”) under those rules, and the MSRB committed to providing such guidance.<sup>2</sup> In addition, since the Securities and Exchange Commission (SEC) approved the amendments to Rule G-21 and new Rule G-40,<sup>3</sup> the MSRB has continued to engage with dealers, municipal advisors, and other industry stakeholders about the MSRB’s advertising rules, including the application of such rules to a regulated entity’s use of social media.<sup>4</sup> The MSRB views the guidance that it committed to provide as part of the recent rulemaking process as the initial set of guidance; the MSRB anticipates that it will provide additional guidance, as appropriate, under those rules and related rules (such as rules concerning supervision), and welcomes suggestions about the topics that the additional guidance may address.

In developing the draft FAQs, the MSRB has been mindful of the potential burden on a regulated entity if there were to be unnecessary inconsistencies between any adopted MSRB social media guidance and similar guidance issued by other regulators that may be applicable to other aspects of the regulated entity’s business. To that end, and to the extent practicable, the MSRB has endeavored to align these FAQs with the social media guidance published by the SEC and the Financial Industry Regulatory Authority (FINRA).<sup>5</sup>

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<sup>2</sup> See Letter from Pamela K. Ellis, Associate General Counsel, Municipal Securities Rulemaking Board, dated April 30, 2018 available at <http://msrb.org/~media/Files/SEC-Filings/2018/MSRB-2018-01%20MSRB%20Letter%20to%20SEC.ashx?>.

<sup>3</sup> Exchange Act Release No. 83177 (May 7, 2018), 83 FR 21794 (May 10, 2018), File No. SR-MSRB-2018-01.

<sup>4</sup> MSRB Establishes Advertising Rule for Municipal Advisors and Enhances Dealer Advertising Rule (May 7, 2018) available at <http://msrb.org/News-and-Events/Press-Releases/2018/MSRB-Establishes-Advertising-Rule-for-Municipal-Advisors-and-Enhances-Dealer-Advertising-Rule.aspx>.

<sup>5</sup> See, e.g., National Examination Risk Alert, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission (Jan. 4, 2012); Exchange Act Release No. 58288 (Aug. 1, 2008); FINRA Regulatory Notice 17-18 (Apr. 2017).

## Request for Comment

The MSRB believes that public comment will provide useful insight to help ensure that the FAQs provide practical compliance assistance. Therefore, the MSRB is seeking comment regarding the content and appropriateness of the proposed FAQs, as well as the usefulness of the draft responses. In addition to any other comment in this regard, the MSRB specifically seeks comment on the following questions:

- Do the proposed responses to the FAQs add to the understanding of the MSRB's advertising rules? How could they be improved to provide greater understanding?
- Are there additional questions that need to be addressed relating to a regulated entity's use of social media under Rules G-21 and G-40?
- Would it be more useful if the MSRB were to provide one set of social media guidance specifically tailored for dealers under Rule G-21 and another set of social media guidance specifically tailored for municipal advisors under Rule G-40?
- Are there distinctions in how dealers and/or municipal advisors use social media that may warrant deviating from the social media guidance that has been provided by other financial regulators?
- Should the MSRB consider amending MSRB rules to prescriptively address social media usage, rather than providing guidance in the form of frequently asked questions? In particular, should the MSRB amend Rules G-8, G-9, G-27 and/or G-44 to address regulated entities' use of social media?
- Should the MSRB consider providing guidance or amending its rules to address the supervisory issues pertaining to social media?

August 14, 2018

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## Text of Draft FAQs

### **Draft FAQs Regarding the Use of Social Media under MSRB Rule G-21, on Advertising by Brokers, Dealers or Municipal Securities Dealers, and MSRB Rule G-40, on Advertising by Municipal Advisors**

The Municipal Securities Rulemaking Board (MSRB) provides these answers to frequently asked questions (FAQs) to enhance market participants' understanding of permissible and impermissible uses of social media<sup>1</sup> as part of their municipal securities business or municipal advisory activities under MSRB Rule G-21, on advertising by brokers, dealers or municipal securities dealers, and under MSRB Rule G-40, on advertising by municipal advisors (Rule G-21, together with Rule G-40, the "advertising rules"). These FAQs can assist brokers, dealers or municipal securities dealers (collectively, "dealers") and municipal advisors (collectively, "regulated entities") with their compliance with the MSRB's advertising rules.<sup>2</sup>

In developing these draft FAQs, the MSRB has been mindful of the potential burden on a regulated entity if there were to be unnecessary inconsistencies between any adopted MSRB social media guidance and similar guidance issued by other regulators that may be applicable to other aspects of the regulated entity's business. To that end, and to the extent practicable, the MSRB has endeavored to align these FAQs with the social media guidance published by the SEC and the Financial Industry Regulatory Authority (FINRA).<sup>3</sup>

The FAQs discuss compliance with MSRB rules. The MSRB reminds regulated entities that they also may be subject to the rules of other financial regulators, including state regulators.

#### **Background**

The amendments to Rule G-21 and new Rule G-40 set forth general provisions, address professional advertisements by the relevant regulated entity, and require principal approval, in writing, for advertisements by regulated entities before their first use.

During the development of the amendments to Rule G-21 and of new Rule G-40, the MSRB received requests for guidance regarding the use of social media by a regulated entity under those rules. These FAQs provide the requested guidance.

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<sup>1</sup> As used in this guidance, social media refers to electronic communications through which dealers and municipal advisors create and share information online. Further, social networking refers to the creation of personal and business relationships online.

<sup>2</sup> The obligations under Rules G-21 and G-40 outlined in these FAQs also apply, consistent with MSRB Rule D-11, "associated person," to the associated persons of the dealer or municipal advisor, as applicable.

<sup>3</sup> See, e.g., National Examination Risk Alert, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission (Jan. 4, 2012) ("2012 Risk Alert"); Exchange Act Release No. 58288 (Aug. 1, 2008); FINRA Regulatory Notice 17-18 (Apr. 2017).

## Use of Social Media

### 1. Is social media use by a regulated entity or an associated person relating to its municipal securities business or municipal advisory activities considered advertising under the MSRB's advertising rules?

Yes, depending on the facts and circumstances. With limited exceptions, any material that relates to (i) the products or services of the dealer, (ii) the services of the municipal advisor, or (iii) the engagement of a municipal advisory client by the municipal advisor, may constitute an advertisement under the MSRB's advertising rules, if it is:

- published or used in any electronic or other public media; or
- written or electronic promotional literature distributed or made generally available to either customers or municipal entities, obligated persons, municipal advisory clients or the public.

To the extent that the use of social media, including blogs, microblogs, and social and professional networks, by a regulated entity, including its associated persons, is deemed advertising based on its content and distribution, that advertising would be subject to all applicable provisions of Rules G-21 and G-40. Those provisions include content standards and a requirement that an advertisement be pre-approved by a principal before its first use.

Further, dealers and municipal advisors should bear in mind that "posts" or "chats" on social media, including those deemed advertising, are subject to all other applicable MSRB rules.<sup>4</sup> Those rules include:

- MSRB Rule G-17, on conduct of municipal securities and municipal advisory activities;
- MSRB Rule G-27, on supervision;
- MSRB Rule G-44, on supervisory and compliance obligations of municipal advisors;
- MSRB Rule G-8, on books and records to be made by brokers, dealers, municipal securities dealers, and municipal advisors; and
- MSRB Rule G-9, on retention of records.

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<sup>4</sup> For the purposes of this guidance, a "post" is disseminated among multiple parties; by contrast, a "chat" is typically disseminated between two parties.

**2. Does a “post” by a regulated entity or an associated person that contains an advertisement about the products or services of the dealer, or that relates to the services of the municipal advisor or the engagement of a municipal advisory client by the municipal advisor, have to be approved by a principal under Rules G-21 and G-40, as applicable, before use?**

Yes. A “post” (which, for purposes of this document, includes a “tweet”) might contain an image of an advertisement that relates to (i) the products or services of the dealer, (ii) the services of the municipal advisor, or (iii) the engagement of a municipal advisory client by the municipal advisor. If the “post” includes content that is an advertisement<sup>5</sup> as defined in Rule G-21(a)(i) and Rule G-40(a)(i), as applicable, a principal must approve that advertisement before its first use, regardless of whether the “post” is on a business or personal social networking site. Further, a “post” may be an advertisement, as defined in Rule G-21(a)(i) and Rule G-40(a)(i), even if the “post” does not contain an image of an advertisement. See questions 3 and 10.

**3. Can an associated person’s personal social media use be deemed “advertising” that is subject to the MSRB’s advertising rules?**

Potentially, yes. An associated person’s personal social media use would not *per se* be advertising that is subject to the MSRB’s advertising rules. Whether an associated person’s personal social media use is advertising depends on whether the content of the social media relates to (i) the products or services of the dealer, (ii) the services of the municipal advisor, or (iii) the engagement of a municipal advisory client by the municipal advisor, as relevant.

- For example, an associated person of a regulated entity “posts” the following on his personal social media that is viewable by the public rather than a selected audience:

Let’s help our children! ABC Youth Group is having a car wash to raise funds for a new basketball court on May 18<sup>th</sup> at 3:00 pm at XYZ address. Get your car washed and help out.

The content in the “post” in the above example does not relate to (i) the products or services of the dealer, (ii) the services of the municipal advisor, or (iii) the engagement of a municipal advisory client by the municipal advisor. Even though the “post” is publicly available, the “post” would not be advertising that is subject to the MSRB’s advertising rules.

Similarly, an associated person may hyperlink from his or her personal social media to content on his or her dealer’s or municipal advisor’s social media. The “hyperlinking” by the associated person

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<sup>5</sup> For example, an advertisement in the context of a “post” may include sponsored or paid promotional content.

to the regulated entity's social media would not constitute an advertisement if that hyperlinked content does not relate to the matters referenced in the preceding paragraphs.<sup>6</sup>

- For example, a "post" from associated person FGH's personal social media contains a hyperlink to an article on municipal advisor's ABC website about an animal shelter rebuilding after recent flooding. The "post" is viewable by the public.

The "post" in the above example would not be advertising that is subject to the MSRB's advertising rules. The "post," although it contains a hyperlink to a regulated entity's website, links to content that does not relate to the services of the municipal advisor or the engagement of a municipal advisory client by a municipal advisor.

By contrast, to the extent that an associated person of a municipal advisor engages in advertising, as defined by Rules G-21 and G-40, on his or her personal social media, that advertising would be subject to requirements of the MSRB's advertising rules.

- For example, an associated person of ABC municipal advisor posts the following on his or her personal social networking page that is viewable by the general public:

I'm happy to be part of the team! ABC municipal advisor was rated the best in XYZ state for airport financings during 2017 according to DEF rating service. ABC municipal advisor has great experience in airport financings and can help you with your next project.

The "post" in the above example would be an advertisement, as defined in Rule G-40(a)(i). The content of the electronically distributed "post" (i) promotes the expertise and experience of ABC municipal advisor and solicits inquiries about its services and (ii) is generally available to municipal entities, obligated persons, municipal advisory clients or the public. As such, even though the advertisement was "posted" on the associated person's personal social networking page, the "post" would be subject to the requirements of Rule G-40 as well as all other applicable MSRB rules. See question 1.

#### **4. Do the MSRB's advertising rules apply to hyperlinked content on an independent third-party website from a regulated entity's website?**

Depending on the facts and circumstances, the MSRB's advertising rules may apply to hyperlinked content on an independent third-party's website from a regulated entity's website.

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<sup>6</sup> For example, such hyperlinked content may include information about a charity event sponsored by the dealer or municipal advisor, a human-interest article, an employment opportunity, or employer information covered by state and federal fair employment laws. See FINRA Regulatory Notice 17-18 (Apr. 2017) at 4.

The MSRB’s advertising rules would apply to hyperlinked content on an independent third-party’s website from a regulated entity’s website if the regulated entity either:

- involved itself in the preparation of content on that third-party website— this is known as **entanglement**;<sup>7</sup> or
- implicitly or explicitly approved or endorsed the content on the third-party website —this is known as **adoption**.<sup>8</sup>

Accordingly, if a regulated entity either becomes entangled with or adopts the hyperlinked content, the regulated entity becomes subject to the MSRB’s advertising rules for that content.

- For example, on its website, ABC dealer states that XYZ municipal entity has a great article about the financing for its new school (ABC dealer was the underwriter for that financing), and ABC dealer provides a link to that article.

In this case, ABC dealer, by stating it was a great article, would have adopted the article on XYZ’s website, and the content of that article would be subject to Rule G-21.

## 5. What factors may a regulated entity consider to determine whether it has adopted the hyperlinked content on an independent third-party’s website?

To help determine whether a regulated entity has adopted hyperlinked content on an independent third-party’s website, the regulated entity may want to consider the following non-exclusive factors:<sup>9</sup>

- **Does the context suggest that the regulated entity has approved or endorsed the hyperlinked content?** The regulated entity may want to consider its disclosure about the hyperlink, and what a reader may imply by the location and presentation of hyperlink. For example, does the regulated entity state that it approves or endorses the prominently-featured hyperlinked content, or does the regulated entity simply state that the hyperlinked content contains additional information, such as a news article, that may be of interest to the reader?<sup>10</sup>

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<sup>7</sup> See Exchange Act Release No. 58288 (Aug. 1, 2008) at 32 (the “2008 release”); Exchange Act Release No. 42728 (Apr. 28, 2000), 65 F.R. 25843 (May 4, 2000) at 25848 (the “2000 release”).

<sup>8</sup> *Id.*

<sup>9</sup> See 2008 release at 33; 2000 release at 25849.

<sup>10</sup> See 2008 release at 34; 2000 release at 25849.

- **Does the hyperlink create customer or municipal advisory client confusion?** The regulated entity may want to consider whether a customer or municipal advisory client would be confused and not fully appreciate that the hyperlink is to third-party content. Does the regulated entity provide disclosure to explain that the hyperlink is to third-party content?<sup>11</sup>
- **Is the hyperlink to content that is not controlled by the regulated entity and is the hyperlink ongoing?** When a regulated entity links to content that is hosted by an independent third-party that is not controlled by the regulated entity, that content may not be advertising subject to the MSRB’s advertising rules if the hyperlink is “ongoing.”

An “ongoing” link is one which: (i) is continuously available to visitors to the regulated entity’s website; (ii) visitors to the regulated entity’s site have access to even though the independent third-party site may or may not contain favorable material about the regulated entity; and (iii) visitors to the regulated entity’s website have access to even though the independent third-party’s website may be revised.<sup>12</sup> A regulated entity may not have adopted the content on the independent third-party’s website if the link is “ongoing.”

Assuming that the hyperlinked content on a third-party website from a regulated entity’s website is an advertisement under Rules G-21 and G-40, a regulated entity must consider all applicable provisions of the MSRB’s advertising rules, including whether the hyperlinked content (i) contains any untrue statement of material fact or is otherwise false or misleading and (ii) would be a testimonial. The MSRB’s advertising rules prohibit a regulated entity from publishing or disseminating advertisements that the regulated entity knows or has reason to know contains any untrue statement of material fact or is otherwise false or misleading.<sup>13</sup> Moreover, for dealers, an advertisement that contains a testimonial must comply with the disclosure requirements set forth in Rule G-21(a)(iv)(G). However, for municipal advisors, an advertisement that contains a testimonial generally would be prohibited under Rule G-40(a)(iv)(G).<sup>14</sup>

## 6. **May a regulated entity use a disclaimer alone to disclaim potential MSRB rule violations for hyperlinked content on an independent third-party website?**

No, the MSRB generally would not view a disclaimer alone as sufficient to insulate a regulated entity from potential MSRB rule violations related to hyperlinked content on an independent third-party website that the regulated entity knows or has reason to know is materially false or

<sup>11</sup> See 2008 release at 36; 2000 release at 25849.

<sup>12</sup> See FINRA Regulatory Notice 17-18 (Apr. 2017) at 5.

<sup>13</sup> See Rule G-21(a)(iv) and Rule G-40(a)(v); 2008 release at 36; FINRA Regulatory Notice 11-39 (Aug. 2011) at 3.

<sup>14</sup> See MSRB Notice 2018-14 (Jun. 27, 2018).

misleading. A regulated entity that hyperlinks to content that the regulated entity knows or has reason to know is materially false or misleading may violate Rules G-17, G-21 and/or G-40.<sup>15</sup>

**7. Do the MSRB’s advertising rules apply to linked content within independent third-party content to which a regulated entity hyperlinked?**

No, Rules G-21 and G-40, in general, would not apply to linked content within content to which the regulated entity linked (“secondary links”). However, to avoid triggering the application of Rules G-21 and G-40:

- The regulated entity must not have adopted or become entangled with the content in the secondary link – See question 4;
- The regulated entity must have no influence or control over the content in the secondary links – See question 5;
- The original linked content must not be a mere vehicle for the secondary links or not rely completely on the information available in the secondary links; and
- The regulated entity must not know or have reason to know that the information contained in the secondary links contains any untrue statement of material fact or is otherwise false or misleading.<sup>16</sup>

### Third-Party Posts

**8. Do Rules G-21 and G-40 apply to posts by a customer, municipal entity client or another third-party (collectively, “third-party posts”) on a regulated entity’s or its associated person’s social networking page?**

In general, no. Rules G-21 and G-40 generally would not apply to posts by a third-party on a regulated entity’s or its associated person’s social networking page. The post would not be considered material that is published, distributed or made available by the dealer or municipal advisor.

<sup>15</sup> See 2008 release at 36-37; 2000 release at 25849.

<sup>16</sup> See FINRA Regulatory Notice 17-18 at Q:4; see Q:5.

Nevertheless, Rules G-21 and G-40 may apply to such third-party posts under certain circumstances. For example, Rules G-21 and G-40 would apply to such posts if the dealer or municipal advisor becomes entangled with or adopts the content of such posts. *See also* question 4.

- **Entanglement.** A regulated entity becomes entangled with a post by a third-party on the regulated entity’s social networking page if the regulated entity has involved itself with the preparation of the third-party content.<sup>17</sup> For example, a regulated entity or its associated person may become entangled with a third-party post if the regulated entity or its associated person pays for, solicits or encourages a third-party to post certain comments on the regulated entity’s social networking page.
- **Adoption.** A regulated entity adopts the content of the third-party post if the regulated entity explicitly or implicitly approves or endorses the content.<sup>18</sup> A regulated entity or its associated person may adopt a third-party post if it “likes,” “shares,” or otherwise indicates approval or endorsement of the content.

*See* question 5 above for a discussion of the non-exclusive factors to consider when determining whether a regulated entity or its associated person has adopted third-party content.

Even though Rules G-21 and G-40 generally would not apply, the MSRB’s recordkeeping and record retention rules would apply to a third-party post on a regulated entity’s or its associated person’s social networking page if that post constituted a complaint by a customer. Rule G-8 requires that a regulated entity maintain records of all written customer or municipal advisory complaints that are received by a dealer or municipal advisor and defines “written” as including electronic correspondence, such as posts on social networking sites.<sup>19</sup> Rule G-9 requires that a regulated entity retain records of those complaints for six years (Rule G-8, together with Rule G-9, the “MSRB’s recordkeeping and record retention rules”). *See* question 11.

**9. May a municipal advisor post positive comments from a municipal advisory client about its experience with the municipal advisor on the municipal advisor’s social media page without such a post being a testimonial within Rule G-40?**

As with question 8 above, if a municipal advisory client posts positive comments on a municipal advisor’s social media page and the municipal advisor does not become entangled with or adopt that content, the municipal advisor could allow such content to remain on its social media page without taking “down” such content.

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<sup>17</sup> *See* 2008 release at 32; 2000 release at 25848-49; FINRA Regulatory Notice 10-06 (Jan. 2010) at 7-8.

<sup>18</sup> *Id.*

<sup>19</sup> *See* Rule G-8(a)(xii); Rule G-32 Interpretation – Notice Regarding Electronic Delivery and Receipt of Information by Brokers, Dealers and Municipal Securities Dealers (Nov. 20, 1998).

However, if the municipal advisor paid for, solicited, or encouraged a municipal advisory client to post positive comments about its experience with the municipal advisor on the municipal advisor's social media page that post would be deemed to be an advertisement by the municipal advisor that contains a testimonial within Rule G-40.

Specifically, by paying for, soliciting, or encouraging positive comments from a third-party, the municipal advisor would become entangled with those comments, and the posting of those third-party comments on the municipal advisor's social media page would be deemed to be an advertisement by the municipal advisor that contains a testimonial within Rule G-40(a)(iv)(G). See question 8. As such, the advertisement's use by the municipal advisor would be prohibited.<sup>20</sup> Similar considerations would prohibit the municipal advisor from adopting a municipal advisory client's post, such as by "liking" it.

## Recordkeeping

### 10. **Must regulated entities retain records of "posts," "chats," text messages, or messages sent through messaging applications related to the regulated entity's business conducted through social media?**

Yes, the MSRB's applicable recordkeeping and record retention requirements would apply, regardless of whether the record is for an advertisement under the MSRB's advertising rules.

In this case, Rule G-9 requires that a regulated entity retain records of such "posts," "chats," text messages, and messages sent through messaging applications. Specifically, Rule G-9(b)(viii)(C) requires that a dealer retain "all written and electronic communications received and sent, including inter-office memoranda, relating to the conduct of the activities of such municipal securities broker or municipal securities dealer with respect to municipal securities." Similarly, Rule G-9(h)(i) requires that a municipal advisor retain records, which include, among other things, originals or copies of all written and electronic communications received and sent, including inter-office memoranda, relating to municipal advisory activities.<sup>21</sup>

<sup>20</sup> See IM Guidance Update, No. 2014-04, U.S. Securities and Exchange Commission, Division of Investment Management (Mar. 2014) at 3.

<sup>21</sup> Rule G-8(h)(i) requires municipal advisors to make and keep current all books and records described in Rule 15Ba1-8(a)(1)-(8) under the Exchange Act. Particularly, Rule 15Ba1-8(a)(1)-(8)(a)(1) requires that municipal advisors make and keep true, accurate, and current "originals or copies of all written communications received, and originals or copies of all written communications sent, by such municipal advisor (including inter-office memoranda and communications) relating to municipal advisory activities, regardless of the format of such communications."

**11. Do the MSRB’s recordkeeping and record retention rules apply to posts by third-parties on an associated person’s personal social networking page?**

In general, assuming that the third-party posts do not concern municipal securities or municipal advisory activities, Rules G-8 and G-9 would not apply to such posts by third parties on an associated person’s personal social networking page. However, even though posted to a personal social networking page, if those third-party posts relate to the associated person’s municipal securities or municipal advisory activities, then the MSRB’s recordkeeping and record retention rules would apply.

### Supervision<sup>22</sup>

**12. Should a regulated entity consider establishing policies and procedures as part of its supervisory system to address the use of social media by the regulated entity and its associated persons?**

Yes, as social media is becoming a more common communications tool, a regulated entity should consider establishing policies and procedures to address the use by the regulated entity and its associated persons of social media.<sup>23</sup> As a baseline, those policies and procedures would reflect the regulated entity’s permitted and/or prohibited practices. Such permitted practices may include restrictions on the use of certain technologies or the prohibition of the use of social media to engage in municipal securities business or municipal advisory activities. Further, the supervisory system for a regulated entity that permits the use of social media, would address all applicable MSRB rules, including, but not limited to:

- the MSRB’s advertising rules;
- Rule G-17;

<sup>22</sup> While many regulated entities may find the guidance in these FAQs useful when establishing their supervisory systems, each regulated entity should develop a supervisory system that is tailored to its own business model, recognizing that some considerations may not apply in the same manner for every firm and other may not apply to same manner for every firm and other may not apply at all.

<sup>23</sup> In part, Rules G-27(b) and Rule G-44(a) require that a regulated entity establish a supervisory system to supervise the municipal securities and municipal advisory activities of the regulated entity and its associated persons. In general, a supervisory system includes:

- (i) compliance policies and procedures that describe the practices that associated persons must adhere to in order to meet the standards of conduct established by the regulated entity consistent with applicable securities laws and regulations, including MSRB rules; and
- (ii) written supervisory procedures that describe the practices that the supervisory personnel follow in order to reasonably ensure that associated persons meet the standards of conduct and the regulated entity can evidence a supervisory system.

- Rule G-8; and
- Rule G-9.

See question 1.

**13. What are some factors that a regulated entity should consider as it develops policies and procedures about the use of social media?**

As with any policy and procedure, a regulated entity's social media policies and procedures would be tailored to reflect, among other things, its size, organizational structure, and the nature and scope of its municipal securities or municipal advisory activities. Social media policies and procedures are not "one size fits all."

Among the factors that a regulated entity should consider as it develops social media policies and procedures are:

**Usage Restrictions.** While some regulated entities may prohibit an associated person from engaging in municipal securities business or municipal advisory activities through social media, other regulated entities may permit the use of social media for such purposes. A regulated entity that permits the use of social media by its associated persons, in whole or in part, should consider providing associated persons with a clear and concise list of permitted social media for the conduct of municipal securities business or municipal advisory activities. That list also may include any restrictions to the use of particular social media (for example, a regulated entity may permit certain messaging applications to be used only for internal communications among the regulated entity and its associated persons). If applicable, a regulated entity should consider making the list of permitted social media widely available and easily accessible to its associated persons.<sup>24</sup>

Further, recognizing the need to have policies and procedures that are reasonably designed to ensure compliance with MSRB rules as well as with other applicable securities laws and regulations, and in light of the pace of technology innovations, a regulated entity that permits the use of social media should consider periodically reviewing its list of permitted social media. As part of that review, the regulated entity should determine whether any updates to the list of permitted social media would be warranted.<sup>25</sup>

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<sup>24</sup> See, e.g., 2012 Risk Alert at 3; FINRA Regulatory Notice 07-59 (Dec. 2007) at 7.

<sup>25</sup> See, e.g., 2012 Risk Alert at 4.

Along with the list of permitted social media, the regulated entity should consider addressing the consequences of non-compliance with its social media policies and procedures.<sup>26</sup>

- **Training and Education.** The regulated entity's social media policies and procedures may address the training that the regulated entity will provide related to those policies and procedures. For example, will the training include training requested by the associated person as well as training that is required on a periodic basis? In addition, a regulated entity's training on social media may address various topics likely to occur such as an explanation of the differences between business and personal social media use, and how the lines between business and personal social media usage could be blurred. For example, an associated person could receive a request on his or her personal social media relating to municipal securities business or municipal advisory activities. A regulated entity may want to consider how the associated person should respond to such a request.
- **Recordkeeping and Record Retention.** As noted in question 1, it is possible that a social media posts relating to the regulated entity's municipal securities business or municipal advisory activities would be subject the MSRB's recordkeeping and record retention requirements. A regulated entity should consider its recordkeeping and record retention obligations as it designs its social media compliance policies and procedures.<sup>27</sup>
- **Security.** Among the issues of concern to regulated entities in general, is the security of customer, municipal advisory client, and regulated entity proprietary information. As a regulated entity develops its social media policies and procedures, a regulated entity should consider how issues regarding security may be heightened by the use of social media. For example, a regulated entity may want to consider establishing firewalls between sensitive customer, municipal advisory client, and the regulated entity's proprietary information, and any social media site to the extent that the regulated entity permits access to those sites by its associated persons.
- **Monitoring.** As a regulated entity develops its social media policies and procedures, the regulated entity should consider how it will monitor for compliance with those policies and procedures. For example, a regulated entity may determine to more frequently monitor various social media activities based on the potential risks that the regulated entity has determined may be associated with those activities. See question 14 below for a discussion of various factors that the regulated entity may want to consider as it develops its policies and procedures. As a reminder, a regulated entity's supervisory procedures concerning

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<sup>26</sup> See FINRA Regulatory Notice 07-59 (Dec. 2007) at 7.

<sup>27</sup> *Id.* at 6-7.

social media should address not only the MSRB's advertising rules, but all applicable MSRB rules and other applicable federal securities laws and regulations.

**14. What factors may be important in determining the effectiveness of policies and procedures concerning social media?**

As noted in question 12, MSRB Rules G-27 and G-44 generally require that a regulated entity establish, implement and maintain a supervisory system that is reasonably designed to achieve compliance with MSRB rules as well as with other applicable federal securities laws and regulations. To help test whether that goal is being met with regard to its social media compliance policies and procedures, a regulated entity may want to consider the following non-exclusive factors:

- **Content standards.** A regulated entity should consider whether there are certain risks associated with content created by the regulated entity for its social media and whether that content may create regulatory issues. For example, non-solicitor municipal advisors owe a fiduciary duty to their municipal entity clients. Is the social media content consistent with that duty (*e.g.*, such as content that contains information on specific municipal advisory activity or a recommendation regarding that activity)? Further, is the social media content consistent with the testimonial restrictions set forth in the MSRB's advertising rules?
- **Monitoring of third-party sites.** To the extent that the regulated entity permits the use of social networking sites, a regulated entity should consider how it will monitor for compliance with the regulated entity's social media policies and procedures on those sites.
- **Criteria for approving participation in social networking sites.** A regulated entity should consider whether to develop standards relating to social networking participation. For example, at a minimum, a regulated entity must ensure compliance with the MSRB's record retention standards. As the regulated entity develops its criteria for approving the use of certain sites, the regulated entity also should address whether it has controls in place to revoke approval to participate in a particular social networking site should certain circumstances change.
- **Personal social networking sites.** A regulated entity should address whether the regulated entity or its associated persons may engage in municipal securities business or municipal advisory activities on personal social networking sites.
- **Enterprise-wide sites.** A regulated entity that is a part of a larger financial services organization should consider whether it needs to develop usage guidelines reasonably designed to prevent the larger financial services organization in organizational-wide advertisements from violating the MSRB's advertising rules including, for municipal advisors, the prohibition on the use of testimonials in municipal advisor advertising.

## Additional Resources

SR-MSRB-2018-01 (January 24, 2018) available at <http://msrb.org/~media/Files/SEC-Filings/2018/MSRB-2018-01-REVISED.ashx>

Letter from Pamela K. Ellis, Associate General Counsel, Municipal Securities Rulemaking Board, dated April 30, 2018 available at <http://msrb.org/~media/Files/SEC-Filings/2018/MSRB-2018-01%20MSRB%20Letter%20to%20SEC.ashx?>

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of a Proposed Rule Change, Consisting to Amendments to Rule G-21, on Advertising, Proposed New Rule G-40, on Advertising by Municipal Advisors, and a Technical Amendment to Rule G-42, on Duties of Non-Solicitor Municipal Advisors available at <http://msrb.org/~media/Files/SEC-Filings/2018/MSRB-2018-01-Approval-Order.ashx?>

MSRB Notice 2018-08 SEC Approves Advertising Rule Changes for Dealers and Municipal Advisors available at <http://msrb.org/~media/Files/Regulatory-Notices/Announcements/2018-08.ashx?>

**ALPHABETICAL LIST OF COMMENT LETTERS ON NOTICE 2018-19 (AUGUST 14, 2018)**

1. Bond Dealers of America: Letter from Mike Nicholas, Chief Executive Officer, dated September 14, 2018
2. National Association of Municipal Advisors: Letter from Susan Gaffney, Executive Director, dated September 17, 2018
3. Securities Industry and Financial Markets Association: Letter from Leslie M. Norwood, Managing Director and Associate General Counsel, dated September 14, 2018
4. Wells Fargo Advisors: Letter from Robert J. McCarthy, Director of Regulatory Policy, dated September 14, 2018



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September 14, 2018

**Submitted Electronically**

Ronald W. Smith  
 Corporate Secretary  
 Municipal Securities Rulemaking Board  
 1300 I Street NW  
 Washington, DC 20005

**RE: Request for Comment on Draft Frequently Asked Questions Regarding Use of Social Media under MSRB Advertising Rules**

Dear Mr. Smith:

On behalf of the Bond Dealers of America (“BDA”), I am submitting this letter to provide comments to the MSRB’s Regulatory Notice 2018-19 (Request for Comment on Draft Frequently Asked Questions (“Draft FAQs”) Regarding Use of Social Media under MSRB Advertising Rules) (the “Notice”). BDA is the only DC-based group representing the interests of securities dealers and banks exclusively focused on the U.S. fixed income markets. We welcome this opportunity to present our comments.

*The BDA believes that the Draft FAQs should draw the distinction between interactive and static websites, as does FINRA guidance.*

The Draft FAQs recognize the importance of consistency in guidance across regulatory bodies, stating that the MSRB has endeavored to align the FAQs with social media guidance of the SEC and FINRA. However, the Draft FAQs are inconsistent with FINRA’s social media guidance in at least one significant respect. In its guidance on social media<sup>1</sup>, FINRA draws a distinction between static websites, on which information is posted on a long-term basis and does not represent an interactive conversation, and interactive websites, on which statements are posted within the context of interactive conversations. Consistent with FINRA’s view, as expressed in its guidance, the BDA believes posts on interactive websites that are in the nature of interactive conversations should be construed as communications but not advertisements. The Draft FAQs draw no distinction between static and interactive postings. The BDA believes that the FAQs should state that posts on interactive websites should be treated as communications and subject to the rules and supervisory requirements of the MSRB’s rules on communications and not advertisements. Conversely, when a dealer or municipal advisor posts on a static website, that post could be construed as an advertisement if the facts and circumstances described in the Draft FAQs are present. Such an approach would be consistent with FINRA’s well-established guidance on social media.

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<sup>1</sup> See <http://www.finra.org/industry/social-media>.

***The BDA believes that recordkeeping and record retention rules should apply to posts by third parties on an associated person's personal social networking page only in extremely limited circumstances.***

Draft FAQ 11 states that third-party posts on an associated person's personal social networking page are subject to the MSRB's recordkeeping and record retention rules if they relate to the associated person's municipal securities or municipal advisory activities. By taking this position, the MSRB would be effectively mandating an extraordinary intrusion by registrants into the personal activities of associated persons. Subjecting an associated person's own posts regarding the registrant's business on a social networking site to the recordkeeping and record retention rules is reasonable. However, third-party posts should not be subject to those rules unless solicited or adopted by the associated person.

\* \* \*

Thank you for the opportunity to provide these comments.

Sincerely,

A handwritten signature in blue ink that reads "M. Nicholas". The signature is written in a cursive, flowing style.

Mike Nicholas  
Chief Executive Officer



September 17, 2018

Mr. Ronald Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 I Street, NW  
Washington, D.C. 20005

**RE: MSRB Notice 2018-19**

Dear Mr. Smith:

Thank you again for allowing the draft frequently asked questions (FAQs) related to MSRB Rule G-40 (Rule) as applied to social media, in MSRB Notice 2018-19 (August 14, 2018), to be open for public comment. Such process will help the MSRB understand critical areas of interest from municipal advisors, and help municipal advisors better understand the Rule. We believe this is a beneficial new process that the MSRB should continue to pursue for future regulatory initiatives. However, we would like to continue to express our general concern with having the MSRB produce guidance that is not formally approved by the SEC. A key reason for raising this issue is that examination staff may apply statements or concepts from informational/informal guidance in a manner that is reserved for actual Rules and formal guidance.<sup>1</sup>

Our comments relate to two key areas that need further discussion and understanding. The first is related to application of the Rule, and the second deals with corresponding compliance procedures that will be necessary to demonstrate municipal advisor (MA) firms are adhering to the Rule. Although we realize that the FAQs apply both to municipal dealers and MAs, we limit our comments to the perspective of and applicability to MAs, unless otherwise noted. References to individual questions in the FAQs include both the question and corresponding answer.

#### Application of the Rule

In the past the MSRB has stated that the application of Rule G-40 is the same regardless of the medium used to advertise or potentially advertise. However, the application of the Rule to social media raises the question as to whether the traditional thresholds stated in Rule G-40 for when the advertising rule applies (information that is publically available and/or sent to more than 25 persons) are effective in social media contexts. Below are some questions and discussion that we would like to raise in this area.

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<sup>1</sup> Of interest, see the September 13, 2018 statement from SEC Chairman Clayton on the role of staff views, <https://www.sec.gov/news/public-statement/statement-clayton-091318> and the September 11, 2018 statement from the Federal Reserve and other agencies on the role of supervisory guidance at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180911a.htm>.

### *Rules G-8 and G-9*

In questions 10 and 11, there is discussion that a broad variety of individualized communications (including posts, chats and text messages, messages sent through other social media means and third party postings) related to municipal securities and advisory activities must be retained as they relate to MA activities. **While this is an important point, we believe this discussion should be separated from discussion on the advertising rule, and suggest that the information be provided separately, perhaps in a shaded box, to bring awareness to the issue without confusing it within the context of Rule G-40.** We would also argue that a separate document or FAQ on the application of electronic communications such as chat and text messages and MSRB Rules G-8 and G-9 is something that the MSRB should address. As written, the FAQs provide a blurred view as to which communications are subject to the advertising rule and may impair the ability of MAs to achieve compliance in an efficient and effective manner.

### *Social Media and Rule G-40 Thresholds*

While we understand that advertisements on social media platforms need to be addressed in rulemaking, confusion remains as to how the Rule applies in this area. It is understood that a firm may have Twitter, LinkedIn, and Facebook accounts, available for public viewing, and are subject to analysis to determine if the posting is advertising and then, if so, the firm must review it in accordance with Rule G-40. But the FAQs need to better address the application of the Rule on individual communications.

**The MSRB should clarify that a mere identification that a person is an employee of a municipal advisor is not covered by advertising rules.** For example, if an individual announces on social media that s/he has just been hired as an associated person of a particular municipal advisor, without in any way marketing the firm or its capabilities, such an announcement falls outside of the Rule. Thus, as a potential third example in question 3 of the FAQs, the MSRB could modify the facts from the second example to read as follows: "I'm happy to be part of the ABC municipal advisor team as their new Managing Director!" The MSRB should confirm that such a statement would be viewed as not constituting an advertisement. Similarly, the inclusion of the name of the firm that employs an individual in that person's social media profile (as well as other factual information such as job title, location, basic duties, etc.) should not be viewed as an advertisement.<sup>2</sup> These are all merely factual statements, subject to Rule G-17 if the statements are made in the context of the individual's municipal advisory activities.<sup>3</sup> If the MSRB believes that such information (without other statements that cause the information to take on a marketing function) is not covered by the advertising rules, it should make this very clear.

### *Responsibility of Third Party Postings*

The MSRB states in questions 8 and 9 that third parties can make posts on MA social networking pages, even testimonials, as long as the MA is not entangled with or explicitly adopts the posting, without running afoul of Rule G-40. This differs from the previous FAQ on client lists and case studies, where the

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<sup>2</sup> A description of basic duties limited to a description of what the job is, without marketing the level of skills or specific successes, should not be viewed as rising to the level of being an advertisement.

<sup>3</sup> In our view, such factual statements on the individual's social media page that is not otherwise used to engage in municipal advisory activities should presumptively not be viewed as related to the municipal advisory activities of the firm, but instead personal information routinely shared among individuals in the general population, and therefore fall outside of MSRB rules.

MSRB states that the MA firm itself cannot include testimonials on its web page or use them in other advertising mediums. **We raise this point to question whether it makes sense for there to be two different applications of the Rule for testimonials, which is dependent on the medium, and whether the MSRB's position regarding testimonials relating to municipal advisors should be revisited.**

This is especially true as we note that SEC staff guidance provides some flexibility on testimonial use by investment advisers, which the MSRB previously refused to incorporate into its rulemaking on Rule G-40. Yet the FAQs cite to the SEC's IM Guidance Update No. 2014-04 (see footnote 20 of the FAQs) in justifying a prohibition on municipal advisors. It is unclear why the MSRB can rely on SEC staff guidance in establishing stricter guidance but not in establishing more flexible guidance. If the MSRB as a matter of policy believes that the substance of SEC (and FINRA) staff guidance should not apply to municipal advisors, the MSRB should clearly state that position regarding such substance with appropriate justifications, rather than rely (inconsistently) on this notion that staff guidance (regardless of its substance) should not be incorporated into how MSRB rules are to be applied. As a broader matter, it makes no logical sense for the testimonial restrictions on municipal advisors to be stricter (as both a legal and practical matter) than for investment advisers and broker-dealers. This stricter approach means either (or both) that the MSRB views (a) municipal advisors as inherently less reliable and more likely to try to mislead their clients than are investment advisers and broker-dealers, or (b) issuers and obligated persons as inherently less sophisticated and more gullible than clients (including retail investors) of investment advisers and broker-dealers.

Also, the MSRB should explicitly state after the last sentence of question 5 that, notwithstanding the prohibition on testimonials in advertisements, **an unsolicited third-party opinion or comment posted on a social network (as described in FAQ #8 in FINRA Notice 17-18) is not an advertisement or communication of a municipal advisor and therefore would not be a prohibited testimonial.**

In questions 8 and 9 we would like to also raise the following issues:

- In the definition of "Entanglement," the MSRB adds the term "encourages," which is not found in similar SEC or FINRA language regarding entanglement. That term has too broad of a meaning to be consistent with the established principles of entanglement – while encouraging a specific third-party to post a specific favorable review could be viewed as a solicitation, a more general encouragement of anyone to post any comment (positive, neutral, negative, purely factual, questions, etc.) should not be viewed as a basis for entanglement. This again becomes a "testimonials" problem, and the language in question 9 relating to encouragement is problematic without appropriate context being included.
- In the definition of "Adoption", while the language includes the notion of indicating approval or endorsement, the MSRB should acknowledge that a link or share undertaken to refute the original statement, as described below under "Disclaimers," would not be viewed as being "adopted".
- In the last paragraph of question 8, the MSRB needs to be explicit that "complaint" relates to regulated business activities – for broker-dealers, a complaint must be alleging a grievance involving the firm or the individual "with respect to any matter involving a customer's account" [see MSRB Rule G-8(a)(xii)], for municipal advisors, a complaint must be "alleging a grievance involving the municipal advisory activities" of the firm or individual [see MSRB Rule G-8(h)(vi)]. As written, readers may view the term more broadly than intended.

Our members are also concerned with the need for clarification related to the use of hyperlinks. For instance, if a city puts out a press release that contains a complimentary statement about the MA firm, including the firm's social media address, and then that press release is picked up by the local newspaper that writes a longer story about the project and includes a link to the original press release, can a MA firm post a hyperlink on its web site to the news story, without it being considered advertising? We would argue that the MA firm's link is to a news story, and therefore it is not a testimonial, and believe that the FAQ should include this type of example to show MA firms how to approach these types of situations.

### *Disclaimers*

In question 6, while the general principle makes sense, the MA's disclaimer/disclosures do need to be read in context with the language being linked to in order to determine whether there may be a false or misleading statement. For example, in some contexts, the MA may be trying to refute negative commentary which itself may be false or misleading, and in social networking contexts that refutation will normally be linked to the original post that is being shared – thus, the MA definitely should not be viewed as adopting the language it is in fact refuting. This notion is consistent with the definition of "Adoption" in question 8 in that the MA is definitely not approving or endorsing the content. **Finally, the MSRB should provide the additional guidance provided by FINRA Notice 10-06 in FAQ #9, where FINRA states that a disclaimer is part of the facts and circumstances considered with regard to adoption or entanglement with third-party posts.**

### *Informational Tweets and Postings*

Additional clarification is also needed in the instance where a firm may post "Visit us in Booth 72 during the Nebraska GFOA's conference." If the posting only makes that statement (as compared to "Learn About Our MA Services in Booth 72," which includes language closer to the trigger for Rule G-40<sup>4</sup>), then we believe it would not be considered advertising. We think this type of example, including a discussion of what type of language included in signage beyond purely identifying language might be covered by the Rule, would be beneficial in the FAQ document.

### Compliance with the Rule

While the guidance provided in the FAQs is, with the exceptions described in this letter, largely consistent with existing social media guidance provided by the SEC and FINRA, in certain respects the MSRB's more succinct statement of such guidance raises questions about how certain matters that were specifically dealt with in SEC or FINRA guidance but not mentioned in the FAQs should be understood. We outline below changes the MSRB should make in order to provide greater consistency with the approach of the other regulators and to make the process of compliance and supervision more effective and efficient.

For example, FINRA draws a distinction between static and interactive content on social media platforms, which distinction is not adequately captured by the MSRB's distinction in the FAQs between posts and chats. Based on our reading of the FAQs and existing FINRA guidance, the FINRA guidance provides for a more workable supervisory process, particularly by not requiring pre-use approval by a principal prior to posting interactive content. For example, the use of the term "post" in question 3 does

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<sup>4</sup> In fact, we believe even the second example is best not viewed as an advertisement under Rule G-40.

not adequately provide for a distinction between static and interactive content, so that depending on the specific circumstances, some posts would be viewed under FINRA rules as being interactive content not subject to pre-use approval while potentially being viewed under the FAQs as an advertisement requiring pre-use approval. **We believe it is critical for the MSRB to affirmatively incorporate the distinction between static and interactive content into its own guidance on social media, as without such a distinction many smaller MAs may effectively be shut out of the use of social media, which would be an inequitable result inconsistent with Exchange Act Section 15B(b)(2)(L)(iv). This change is critical in order to make supervisory processes workable for MAs and, probably, many broker-dealers.**

In addition, the FAQs have numerous footnotes to prior FINRA and SEC guidance. Should regulated entities assume that, by citing a particular item and absent any contrary language or disclaimer, the MSRB has adopted the positions taken by FINRA and the SEC in such guidance to the same effect as if the MSRB had provided such guidance directly? And what does that mean for portions of FINRA and SEC guidance that are not specifically cited by the MSRB?

When discussing usage restrictions, the FAQs should include the approach set out in FINRA Notice 11-39 FAQ 9, which provides a process for dealing with situations where a third-party reaches out for business to an individual through a personal social media platform that the firm has restricted from being used for business. That FINRA FAQ actually addresses the situation that the MSRB describes in the last two sentences in question 13 under “Training and Education” in a substantively more helpful way than the current MSRB language does.

The stated language that regulated entities “should consider” their recordkeeping obligations under “Recordkeeping and Record Retention” in question 13 amounts to merely issue spotting and provides no guidance. The MSRB should note that, particularly for smaller regulated entities such as the vast majority of municipal advisors, the decision not to utilize costly existing technology used by broker-dealers and investment advisers to monitor, extract and/or retain communications would not be viewed prejudicially by the MSRB (and therefore should not be so viewed by the enforcement agencies) so long as reasonable alternative methods are used. For example, where an employee uses her/his own communication device<sup>5</sup>, FINRA allows in FINRA Notice 07-59 (page 9) for the regulated entity to establish a process of pre-approval of such usage, with the individual required to allow the firm to access the device. This approach could also apply to specific social media platforms, where the firm would pre-approve use of the platform, would require access to the individual’s account on the platform, and would allow the firm to engage in required reviews and to extract and preserve required records. Regulated entities could make use of social media contingent upon the individual agreeing to these or similar requirements. For example, chat, direct messaging or other similar one-to-one or one-to-few messages could be used on the condition that a firm-designated account be made a recipient of all messages and subject to a prohibition on the individual deleting any posts, messages or other materials unless a copy of such materials is first saved and forwarded to a firm-designated file. The individual would be subject to the loss of rights if upon review it is found that the individual has not complied with the requirements.

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<sup>5</sup> It is important to point out that some states prohibit employers from accessing their employees’ social media accounts, and that key issue is not addressed in the FAQ and has significant compliance control implications.

As NAMA has stated numerous times, we understand the need to develop and implement rules over MA firms and MA professionals. That is not an issue we quibble with, nor that Rule G-40 is necessary. However, we do think that the FAQs are unclear in certain areas and would cause unnecessary compliance hurdles. These hurdles are further amplified when considering that the potentially extensive set of tasks to achieve compliance with the guidance as set forth in the current draft of the FAQs go far beyond the safeguards mandated for actual substantive MA work on which the MSRB's rulemaking to protect issuers and obligated persons is most appropriately focused. Without greater clarification and paring down of the type of monitoring that is needed, a small MA firm could have to spend more effort on this rule than one that affects the actual services they provide their clients. We would ask that the MSRB carefully review this and its other regulatory pronouncements with this in mind.

As social media will continue to evolve, we do not believe that the information provided in the FAQs should instead be provided through amending current rules or developing new ones. The nature of this medium is fluid and dynamic. The MSRB should retain sufficient flexibility to update guidance as warranted, and doing so through rulemaking would be premature and constricting.

Finally, we would like to note that the costs associated with the new Rule do not adequately take into account the costs to comply with the Rule, especially if the MSRB does not provide further clarifications in the FAQs. The issue of costs incurred by MA firms to comply with individual MSRB rules and the entire MSRB rulebook continues to be adverse to the mandate in the *Dodd Frank Act* that the MSRB must consider the effect of its actions on small MA firms. We ask once again for the MSRB to further review the costs associated with complying with Rule G-40, as it was not directly addressed in MSRB Notice 2017-04 (see attachment A).

Thank you again for the opportunity to provide comments on the FAQs. Please feel free to contact me if I can provide you with any additional information or answer any questions about NAMA's response.

Sincerely,

A handwritten signature in black ink that reads "Susan Gaffney". The signature is written in a cursive, flowing style.

Susan Gaffney  
Executive Director

MSRB Notice 2017-04

## Pages 15-16

*At the outset, the MSRB notes it is currently unable to quantify the economic effects of the proposed amendments to Rule G-21 and draft Rule G-40 because the information necessary to provide reasonable estimates is not available. For example, with regard to draft Rule G-40, the MSRB observes that there is little publicly available information on a detailed breakdown of incremental expense items as reported by the municipal advisory industry. In addition, estimating the costs for municipal advisory firms to comply with draft Rule G-40 is hampered by the fact that these costs depend on the business activities and size of these municipal advisory firms, which can vary greatly. Given the limitations on the MSRB's ability to conduct a quantitative assessment of the costs and benefits associated with draft Rule G-40, the Board has thus far considered these costs and benefits primarily in qualitative terms.*

## Pages 16-17

*Furthermore, the MSRB believes that much of the costs associated with both draft amendments to Rule G-21 (as well as draft Rule G-40) will be up-front costs resulting from investments in advertisements that are no longer compliant. These costs can be mitigated by setting a future effective date for the rule changes, if adopted.*



September 14, 2018

Ronald W. Smith  
 Corporate Secretary  
 Municipal Securities Rulemaking Board  
 1300 I Street NW  
 Suite 1000  
 Washington, DC 20005

**Re: MSRB Notice 2018-19: Request for Comment on Draft Frequently Asked Questions Regarding Use of Social Media Under MSRB Advertising Rules**

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates this opportunity to respond to Notice 2018-19<sup>2</sup> (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB requests comment on draft set of frequently asked questions (“FAQs”) regarding the use of social media by brokers, dealers or municipal securities dealers (collectively, “dealers”), as part of their municipal securities activities, or municipal advisors, as part of their municipal advisory activities. These draft FAQs seek to illustrate the application to social media of MSRB G-21, on advertising by dealers, and of MSRB Rule G-40, on advertising by municipal advisors (Rule G-21, together with Rule G-40, the “advertising rules”). SIFMA and its members appreciate the MSRB’s efforts to provide further guidance on the advertising rules. SIFMA feels that guidance in the form of examples is generally helpful, and overall the guidance is generally clear. We do have comments and a few suggestions for further clarifications as set forth below.

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<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> MSRB Notice 2018-19 (August 14, 2018).

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
Page 2 of 4

## **I. Harmonization of MSRB Advertising Rules and Further Rulemaking**

SIFMA feels that the proposed responses to the FAQs are generally helpful and are somewhat harmonized with the FINRA and SEC rules on social media. We do not have any suggestions at this time for additional questions that need to be addressed relating to a regulated entity's use of social media under the MSRB's advertising rules, however, we do have issues with the current FAQ as set forth below. We strongly feel that the rules and associated guidance need to be simple, and for that reason we do not support developing separate social media guidance for dealers and municipal advisors. SIFMA and its members do not feel there are any distinctions in how dealers and municipal advisors use social media that may warrant deviating from the social media guidance that has been provided by the other financial regulators. Harmonization of the MSRB rules with those of the other financial regulators is critical to our members on a subject, such as advertising and social media, that is not product specific. SIFMA and its members do not believe that the MSRB should amend its rules to prescriptively address social media usage, rather than providing guidance in the form of FAQs. Further rule amendments are not necessary in this instance, as the general advertising rule is seen to sufficiently cover such matters as books and records. Finally, other than clarifying the points set forth below, SIFMA believes that the MSRB does not need to provide additional guidance or amend its rules to address the supervisory issues pertaining to social media at this time. Again, SIFMA and its members feel that the MSRB advertising rules sufficiently address this matter as they largely use the same analysis as FINRA, and our suggestions below request further harmonization.

The most significant issue with the MSRB FAQs is that they fail to adopt the concepts of static content and interactive content or correspondence as described in FINRA 10-06<sup>3</sup>. The current language of the MSRB FAQ could be interpreted to require pre-approval of almost any use of social media. Under the FINRA guidance, static content requires supervisor pre-approval, and interactive content does not require pre-approval. Therefore, FAQ 1 should be amended and clarified to incorporate these concepts. "Chats" are interactive and should be treated like correspondence. "Posts" could be either static or interactive, and would need to be analyzed under this rubric. A distinction should be made, as in the FINRA guidance, between static content and interactive content, such as correspondence. In this MSRB FAQ, as in the FINRA guidance, MSRB should apply a risk based post-review approach similar to any correspondence, such as email.

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<sup>3</sup> FINRA Notice 10-06 (Jan. 2010).

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
Page 3 of 4

Regarding FAQ 2, the FAQ says approval before use is required. If analyzing the situation under the FINRA guidance, analysis needs to be made as to whether the content is static or interactive. The MSRB is either making an assumption that the content is static or making a distinction between the MSRB's guidance and FINRA's guidance. Here again, however, SIFMA and its members feel that the MSRB guidance should mirror the FINRA guidance. To do so, a determination should be made whether the content is interactive or static, and if interactive, then apply a risk based post-review approach similar to email or any other correspondence.

In FAQ 5, SIFMA and its members feel that this is another area in which the MSRB expands on the obligations firms have regarding ongoing links in the FINRA guidance. A firm's responsibilities are initially set when a firm determines to offer a particular link as ongoing. A firm would not have the capacity to monitor the third-party website on a continual basis. The language in this FAQ should mirror FINRA guidance.

The current FINRA guidance defines adoption in regard to sharing or linking, but not "liking". In FAQ 8, the MSRB states that an entity or its associated person adopts a third-party post if it "likes" the content. SIFMA and its members don't view "liking" as the adoption of the content.

SIFMA's final concern is that the MSRB guidance should make clear that recordkeeping and record retention rules will only apply to an associated person's personal social networking page if: a) the associated person uses the personal social networking page for business-related communications or b) the associated person takes action to adopt the content. We disagree with the premise in FAQ 11 that states that the MSRB's recordkeeping and record retention rules should apply if a third-party posts on an associated person's personal social networking page about the associated person's municipal securities or municipal advisory activities. The MSRB is expanding its reach into third-party posts on the personal pages of associated persons. We feel that applying the MSRB recordkeeping and record retention rules in this case is unreasonable, unless such posts were solicited or otherwise adopted by the associated person.

As made clear in the Notice, FINRA has had a long history of rulemaking and guidance with respect to social media issues. With this in mind, it would be helpful if dealers could rely on outstanding FINRA enforcement actions or other guidance on social media issues.

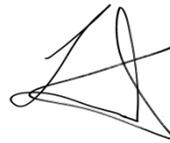
## **II. Conclusion**

Again, SIFMA and its members appreciate the MSRB's efforts to provide guidance on the MSRB advertising rules and consideration given to our comments herein. We look forward to the MSRB's proposed guidance on Rule G-40's content standards. Other issues we believe that would benefit from further clarification are: the definition of advertising and exemptions thereof, especially related to RFP

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
Page 4 of 4

responses and correspondence with clients; documentation standards; expectations of firms that are both broker dealers and municipal advisors to conform to both MSRB Rules G-21 and G-40; and meeting both FINRA 2210 standards and MSRB Rules G-21 and G-40 rulemaking when they are incompatible. We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at (212) 313-1130.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'L. Norwood', written in a cursive style.

Leslie M. Norwood  
Managing Director and  
Associate General Counsel

cc: ***Municipal Securities Rulemaking Board***  
Lynnette Kelly, Executive Director  
Michael Post, General Counsel  
Lanny Schwartz, Chief Regulatory Officer  
Pamela K. Ellis, Associate General Counsel



**Wells Fargo Advisors**

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Member FINRA/SIPC

September 14, 2018

Via Online Submission at: <http://www.msrb.org/CommentForm.aspx>

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 Street, NW, Suite 1000  
Washington, DC 20005

**Re: MSRB Notice 2018-19: Request for Comment on Draft Frequently Asked Questions Regarding Use of Social Media under MSRB Advertising Rules**

Dear Mr. Smith:

Wells Fargo Advisors (“WFA”) appreciates the opportunity to comment on the Municipal Securities Rulemaking Board’s (“MSRB” or the “Board”) above-referenced notice (the “Proposal”) proposing the draft set of frequently asked questions (“FAQs”) centered around the application of the MSRB rules governing the use of social media by brokers, dealers or municipal securities dealers.<sup>1</sup> We believe further refinement of certain FAQs to better align with existing regulatory guidance will benefit both retail investors and regulated entities.

WFA is a dually registered broker-dealer and investment adviser that administers approximately \$1.6 trillion in client assets. We provide investment advice and guidance to help clients achieve their financial goals through 14,400 Financial Advisors and referrals from 4,523 Licensed Bankers in Wells Fargo branches across the U.S.<sup>2</sup>

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<sup>1</sup> MSRB Regulatory Notice 18-19: Request for Comment on Draft Frequently Asked Questions Regarding Use of Social Media under MSRB Advertising Rules (August 14, 2018); *available at*: <http://www.msrb.org/~media/Files/Regulatory-Notices/RFCs/2018-19.ashx??n=1>.

<sup>2</sup> “Wells Fargo Advisors” is the trade name for Wells Fargo Clearing Services, LLC (“WFCS”), a dually-registered broker-dealer and investment adviser, member FINRA/SIPC, and a separate non-bank affiliate of Wells Fargo & Co. “First Clearing” is the

## **I. We Recommend Alignment with Existing Regulatory Guidance.**

WFA supports the MSRB's efforts to provide guidance regarding the application of new MSRB Rule G-40 and recent amendments to MSRB Rule G-21 on the use of social media by MSRB regulated entities. We particularly applaud MSRB's continuing engagement efforts with market participants to clarify the application of these rules prior to their relevant effective dates. We believe this initial guidance is a positive step for both industry stakeholders and public investors. While we also recognize that the Board generally harmonized its guidance with current Securities and Exchange Commission ("SEC") and Financial Industry Regulatory Authority ("FINRA") published social media guidance, further refinement would address certain remaining regulatory inconsistencies without impacting investor protections. Consequently, we respectfully recommend the following:

- First, we recommend the MSRB align its guidance regarding the timing of principal review of social media posts by a regulated entity or an associated person, with FINRA Rule 2210 review requirements. Specifically, that principal review of certain interactive communications, such as social posts, can be conducted on a post-use basis rather than on a pre-use basis as proposed in Question 2 of the Proposal.
- Secondly, we recommend the MSRB align its guidance with Questions 3 and 4 of FINRA Regulatory Notice 17-18, Social Media and Digital Communications ("FINRA Regulatory Notice 17-18") concerning when content from a third-party post is considered "adopted" and thus subject to MSRB advertising rules. As set forth in Question 8 of the Proposal, a regulated entity or associated person is considered to have "adopted" the content of a third-party post by the simple act of "liking" the post. FINRA, on the other hand, requires the additional act of "sharing" or "linking" to a third-party post before the content of the post is considered to have been adopted. WFA believes the simple action of "liking" is not the basis for adoption of content.
- Lastly, we recommend the MSRB align its guidance with Question 5 of FINRA Regulatory Notice 17-18,<sup>3</sup> regarding the review of the content within an "ongoing link."

## **II. Discussion - Specific Recommendations**

### **A. Supervisory Expectations Should Align in Regards to Posts.**

Question 2 of the Proposal states that if a "post," which would include a "tweet," includes content that is an advertisement as defined in Rule G-21(a)(i) and Rule G-40(a)(i), as applicable, a

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trade name for WFCS's clearing business, providing services to unaffiliated introducing broker-dealers. WFCS is affiliated with Wells Fargo Advisor Financial Network ("FiNet"), a broker-dealer also providing advisory and brokerage services. For the ease of this discussion, this letter will use WFA to refer to all of these brokerage operations.

<sup>3</sup> FINRA Notice 17-18, Social Media and Digital Communications (April 25, 2017); available at: [http://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Regulatory-Notice-17-18.pdf](http://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-17-18.pdf).

principal must approve that advertisement before its first use. FINRA however, treats a “post” or a “tweet” like retail communications from a supervisory perspective, thereby permitting a post-use review of that particular content rather than a pre-use review. Requiring a pre-use review of interactive communication, content that appears instantaneously, is impractical for the supervision of such content. Rather, we believe the MSRB should follow FINRA’s risk-based approach for the supervision of interactive communications and allow for a post-use review of such communications.

### **B. Standards and Definition of “Adoption” Should Align.**

In Question 8 of the Proposal, the MSRB states that the simple action of “liking” content posted by an independent third-party constitutes “adoption” of the post’s content.

WFA believes that simply “liking” a post does not rise to the same level as “sharing” or “linking” to a post for the fundamental reason that “liking” a post can reflect many actions that are not intended to represent the promotion of the content. Such actions include recognizing a colleague’s work, indicating they have read a particular article, or merely bookmarking an article for easy reference recall. All of which reflect no intention of marketing the article itself.

Consequently, we recommend the MSRB align its guidance regarding “adoption” of content from a third-party post to Questions 3 and 4 of FINRA Regulatory Notice 17-18. The effect would be that “adoption” of content from a third-party post would not be based on the simple act of “liking” a post but would also require another act such as “sharing” or “linking” for “adoption” of content to occur. Furthermore, a regulated entity or associated person would not be responsible for information contained on additional links, or secondary links, located within the third-party post.

### **C. Guidance for Ongoing Links Should Align.**

The MSRB and FINRA generally align in regards to the guidance provided around the standards concerning what constitutes an ongoing link. Specifically, the two regulators align on the fundamental definition of an ongoing link whereby the content must not be controlled by the regulated entity and that the ongoing link is continuously available to visitors regardless of whether the content contains favorable or unfavorable material about the regulated entity.

What is unclear from Question 5 in the Proposal is (1) whether the obligation to review an ongoing link for potentially misleading content is limited to the timing of the establishment of the link or required on an ongoing basis; and (2) why it is necessary to review the link’s content for testimonial status.

We recommend the MSRB align its guidance with Question 5 of FINRA Regulatory Notice 17-18, which, among other things, states that the review for potentially misleading content of a link to third-party content should occur at the time of the establishment of the link. Credentials for an ongoing link are set initially when a firm determines to offer a particular link

Ronald W. Smith  
September 14, 2018  
Page 4

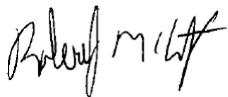
as an ongoing link. The content throughout the third-party link may change constantly making ongoing monitoring problematic.

Consistent with Question 5 in FINRA Regulatory Notice 17-18, FINRA also limited a member's ongoing review responsibilities in FINRA's Interpretive Letter to ICI<sup>4</sup> stating that where an "ongoing hyperlink" meets the following description; 1) the hyperlink is continuously available to investors who visit the member's site; 2) the member has no discretion to alter the information on the third-party site; 3) investors have access to the hyperlinked site whether or not it contains favorable material about the member; and 4) the linked site could be updated or changed by the third-party and investors would nonetheless be able to use the hyperlink, "the staff would not hold the member responsible for the content or filing of information contained in the site."<sup>5</sup> WFA believes the interpretive letter coincides with FINRA Regulatory Notice 17-18 and effectively covers the scope of supervisory review for ongoing links and therefore recommends the Proposal mirror such position.

### III. CONCLUSION

WFA appreciates the opportunity to provide feedback to the MSRB in regards to the Proposal. If you would like to discuss this matter further, please feel free to contact me directly at (314) 242-3193 or robert.j.mccarthy@wellsfargoadvisors.com.

Sincerely,



Robert J. McCarthy  
Director of Regulatory Policy

Cc: Stephen Bard/Senior Vice President - WIM Director of Social Media

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<sup>4</sup> FINRA Interpretive Letter to Craig S. Tyle, Investment Company Institute;(November 11, 1997); available at: <http://www.finra.org/industry/interpretive-letters/november-11-1997-1200am>.

<sup>5</sup> *Id.*