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MSRB Proposes Professional Qualification Requirements for Municipal Advisors.

Alexandria, VA – The Municipal Securities Rulemaking Board (MSRB) today requested public comment on a proposal to establish qualification requirements for municipal advisor professionals. The Dodd-Frank Wall Street Reform and Consumer Protection Act charged the MSRB with developing professional standards for municipal advisors to enhance protections for state and local governments.

"The creation of a professional qualifications program for municipal advisors is a key step toward safeguarding the interests of state and local governments that engage the services of municipal advisors," said MSRB Executive Director Lynnette Kelly. "Individuals entrusted with providing financial advice to state and local governments will be required to demonstrate both an understanding of the business and regulatory requirements."

The MSRB's proposal would amend its existing rule on qualification requirements for personnel of municipal securities dealers to incorporate requirements for municipal advisor professionals. The draft amendments to MSRB Rule G-3 add registration classifications for municipal advisors to distinguish between those who engage in municipal advisory activities—municipal advisor representatives—and those who engage in their management, direction or supervision—municipal advisor principals.

Under the draft amendments to Rule G-3, municipal advisor representatives would be required to take and pass a professional qualification test to demonstrate a minimum level of competency before providing or continuing to provide financial advisory services to state and local governments. The MSRB is proposing a one-year grace period for all individuals currently engaged in municipal advisory activities to take and pass the test.

"Given the significant changes that accompany a new regulatory regime, the MSRB believes it is important for all municipal advisor representatives, regardless of their years of experience or other certifications, to take the exam," Kelly said.

Next steps in the development of the test include a survey of municipal advisors on their core activities to further inform the MSRB on the areas to be tested and the preparation of a study outline, which will be filed with the Securities and Exchange Commission (SEC). The MSRB anticipates implementing a pilot exam in 2015.

The MSRB earlier this year requested comment on a proposal to establish core standards of conduct for municipal advisors and supervisory and compliance obligations. Future MSRB rule proposals for municipal advisors will include measures to address the potential for pay-to-play activities by municipal advisors; limitations on gifts and gratuities to employees of municipal securities issuers and other market participants; and duties of municipal advisors acting as solicitors. The MSRB also plans to implement a per-professional fee of $300 for municipal advisors to begin to fairly distribute assessments across all regulated entities.

While the majority of the draft amendments to MSRB Rule G-3 are targeted toward municipal advisors, the MSRB also proposes to eliminate the practice of apprenticeship, which required municipal securities representatives to shadow an experienced professional for 90 days before conducting business with the public. This change aligns with trends in other regulatory regimes toward allowing firms to identify appropriate training and supervision for new employees.

Comments on the draft amendments should be submitted to the MSRB no later than May 16, 2014. The MSRB is hosting an educational webinar on the main aspects of the municipal advisor professional qualification requirements on April 3, 2014 at 3:00 p.m. ET. Register for the webinar.

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