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MSRB Proposes MA Qualification Exams.

WASHINGTON — The Municipal Securities Rulemaking Board on Monday proposed to amend its rule on professional qualifications to cover municipal advisors and require them to take a test as soon as next year.

The board plans to survey municipal advisors to determine what the test would include.

The test requirement would be in draft amendments that the MSRB wants to include in its Rule G-3, which would distinguish between MA representatives who provide services and MA principals who supervise them.

Under the proposal, all MA 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 advice 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.

“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.”

Kelly said the grace period is appropriate because of the major changes a brand-new regulatory regime brings. MAs are gradually coming under full MSRB regulation as the board rolls out rules based on the requirements of the Dodd-Frank Act, which imposes a fiduciary duty on advisors offering financial advice to municipal clients. The board has previously proposed rules laying out the core standards for MA conduct and supervision.

“The notice is generally consistent with our expectations,” said Nathan Howard, general counsel to the National Association of Independent Public Finance Advisors. “However, the appropriateness of the timing of the notice and the effective date of the MA testing requirements will need to be analyzed carefully, particularly in light of the fact that the MSRB has not yet finalized the municipal advisor representative exam or otherwise provided any indication as to its contents.”

The MSRB said in a statement that it will conduct a survey of MAs to learn more about their activities before developing a study outline, which the board will submit to the Securities and Exchange Commission. The MSRB expects to begin a pilot exam program in 2015.

The board also proposes to eliminate the practice of apprenticeship, which required municipal securities representatives to shadow an experienced professional for 90 days before doing business. The board proposed this change to reflect a general regulatory attitude shift, the MSRB said in a release.

The board is requesting comments on the qualifications exam proposal by May 16. The MSRB is hosting an educational webinar on professional qualification requirements on April 3.

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