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Hold-to-Maturity CUSIP Exemption Tweaked in New Filing.

PHOENIX – The Municipal Securities Rulemaking Board has filed with the Securities and Exchange Commission an amendment to its proposal to require dealers and muni advisors to obtain CUSIP numbers in private placement deals, tweaking an exemption to reflect typical muni bond structures.

The change to the proposal, which was filed Wednesday after being telegraphed as coming in the briefing on the board's quarterly meeting late last month, is directly responsive to the concerns of some market participants.

The broader proposal amends the MSRB's Rule G-34 on CUSIP numbers to make clear that dealers must acquire CUSIPS when orchestrating private placements. CUSIP numbers are six and nine sets of numbers and letters that identify an issuer and each maturity of a municipal issuance. The MSRB said when it proposed the Rule G-34 change that it has always considered it a requirement for dealers to acquire CUSIPS when acting as placement agents. The rule change would clarify that, but dealers have contended that such a requirement would be new.

The proposal also would require that non-dealer municipal advisors be subject to the CUSIP requirement for new issue securities that are sold in a competitive offering.

Among the issues raised by comment letters to the MSRB and SEC was an exception to the requirement that said CUSIP numbers are not needed for direct purchases by banks, their non-dealer control affiliates and consortiums, where the dealer or municipal advisor reasonably believes the purchaser's intent is to hold the securities to maturity. Issuers and dealers alike had raised concerns that investors would be hesitant to certify that they planned to hold "to maturity," since muni bonds often have much earlier call dates.

Under the revision filed with the SEC, titled Amendment No. 1, that exception now reads that a dealer or MA "may elect not to apply for assignment of a CUSIP number or numbers if the underwriter or municipal advisor reasonably believes (e.g., by obtaining a written representation) that the present intent of the purchasing entity or entities is to hold the municipal securities to maturity or earlier redemption or mandatory tender."

The MSRB's filing also creates an exception for direct purchases by municipal entities that are not established for the purpose of secondary market trading, such as state revolving funds and bond banks. The Securities Industry and Financial Markets Association responded favorably to the MSRB's changes, though still believes the MSRB should have eliminated references to a time frame for the intergovernmental exemption.

"SIFMA is pleased the MSRB has submitted Amendment No. 1 to its proposed rule change to MSRB Rule G-34," said Leslie Norwood, a managing director, associate general counsel, and co-head of municipal securities at the dealer group. "The expansion of the exception, which now includes certain intergovernmental purchases of securities, clarifies that these securities that are never intended to be traded in the secondary market do not need to incur the expense of obtaining a CUSIP number. We also appreciate the clarifying language with respect to the intent of the

purchasing entity, although we believe the MSRB should have also eliminated the time frame with respect to the purchaser's intent."

The MSRB also announced today that it is revising its Series 52 exam for municipal securities representatives into a specialized knowledge exam in advance of the Oct. 1, 2018 release of the Financial Industry Regulatory Authority's Securities Industry Essentials examination.

"The MSRB worked collaboratively with FINRA during development of the SIE examination to streamline duplicative testing of general knowledge that has traditionally been covered across several representative-level examinations," the MSRB said in a notice. "The MSRB supports the goal to reduce testing redundancies for securities industry professionals and expand opportunities for prospective securities professionals. To that end, the MSRB anticipates filing a proposed rule change with the SEC in early 2018 to require the SIE as a prerequisite to registration as a Municipal Securities Representative, Municipal Securities Sales Limited Representative and Limited Representative-Investment Company and Variable Contracts Product Representative."

By Kyle Glazier

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