Accordingly, the calculation of the dollar price of a transaction in the securities in your example should be made to the maturity date. The existence of the sinking fund call should, however, be disclosed on the confirmation by an indication that the securities are "callable." The fact that the securities are prerefunded should also be noted on the confirmation. *MSRB interpretation of June 8, 1978.*

Callable securities: pricing to call. Your letter, dated January 25, 1979 has been referred to me for response. In your letter, you raise a question regarding pricing of callable securities under rules G-12 and G-15. Specifically, you inquire as to how the dollar price should be calculated for transactions in a particular issue of [Name of bond deleted] bonds. The terms of the issue provide in pertinent part that the securities are subject to redemption prior to maturity on or after October 1, 1984, at declining premiums, from the proceeds of prepayments of mortgage loans (the "1984 call feature").

As you know, Board rules G-12 and G-15 require that

> ... where a transaction is effected on a yield basis, the dollar price shall be calculated to the lowest of price to premium call, price to par option, or price to maturity...

As an interpretive matter, the Board has adopted the position that the calculation of dollar price to a premium call or par option date should be to that date at which the issuer may exercise an option to call the whole of a particular issue or, in the case of serial bonds, a particular maturity, and not to the date of a call in part.

With respect to your question, the Board is of the view that the dollar price for transactions involving the securities in question should not be calculated to the 1984 call feature. The Board bases its conclusion on (1) the fact that it is extremely unlikely as a practical matter that the call would be exercised as to all or even a significant part of the issue (that is, it is much more likely to operate in practice as an "in part" call) and (2) the exercise of the 1984 call feature would depend on events which are not subject to the control of the issuer. I note that the Board cited this as the reason for not utilizing "catastrophe call" features for purposes of price calculation. *MSRB interpretation of March 9, 1979.*

Callable securities: pricing transactions on construction loan notes. I am writing in response to your letter of February 3, 1984 concerning the application of certain of the confirmation requirements of Board rules G-12 and G-15 to transactions in construction loan notes. In your letter you note that both rules require that the confirmation of a transaction in callable securities effected on a yield basis set forth a dollar price that has been computed to the lowest of the price to the call, the price to the par option, or the price to maturity of the securities; rule G-15 requires that customer confirmations effected on a dollar price basis state the resulting yield computed to the lowest of the yield to call, to the par option, or to maturity. You inquire how these comparative calculation requirements would apply to a confirmation of a transaction in construction loan notes, which generally are callable "in whole" six months prior to the stated maturity date at par.

Your inquiry was referred to a committee of the Board which has responsibility for interpreting the Board's confirmation rules; that committee has authorized my sending you this response. The committee notes that a Board interpretive notice of December 1980, which discussed the types of call features which should be used for purposes of the comparative calculation requirements, stated clearly that these requirements would apply to a transaction in a callable security if the issue of which the security is a part is callable "in whole" and if there is no restriction on the source of the funds which may be used to exercise the call. Since the call feature applicable to issues of construction loan notes is this type of "in whole" call feature, the committee is of the view that the comparative calculation requirements would apply. The confirmation of a transaction in a construction loan note effected on a yield basis, therefore, should state a dollar price computed to the lower of the price to this call feature or the price to maturity. Similarly, a customer confirmation of a transaction in these securities effected on a dollar price basis should set forth a yield to the lower of the yield to this call feature or a yield to maturity. *MSRB interpretation of March 5, 1984.*

Callable securities: pricing to call and extraordinary mandatory redemption features. This is in response to your November 16, 1983, letter concerning the application of the Board's rules to sales of municipal securities that are subject to extraordinary redemption features.

As a general matter, rule G-17 of the Board's rules of fair practice requires municipal securities brokers and dealers to deal fairly with all persons and prohibits them from engaging in any deceptive, dishonest, or unfair practice. The Board has interpreted this rule to require, in connection with the purchase from or sale of a municipal security to a customer, that a dealer must disclose, at or before the time the transaction occurs, all material facts concerning the transaction and not omit any material facts which would render other statements misleading. The fact that a security may be redeemed "in whole," "in part," or in extraordinary circumstances prior to maturity is essential to a customer's investment decision about the security and is one of the facts a dealer must disclose prior to the transaction. It should be noted that the Board has determined that certain items of information must, because of their materiality, be disclosed on confirmations of transactions. However, a confirmation is not received by a customer until after a transaction is effected and is not meant to take the place of oral disclosure prior to the time the trade occurs.

You ask whether, for an issue which has more than one call feature, the disclosure requirements of MSRB rule G-15 would be better served by merely stating on the confirmation that the bonds are callable, instead of disclosing the terms of one call feature and not another. Board rule G-15, among other things, prescribes what items of information must be disclosed on confirmations of transactions with customers.[1] Rule G-15(a)(i)(E)[*1] requires that customer confirmations

contain a materially complete description of the securities and specifically identifies the fact that securities are subject to redemption prior to maturity as one item that must be specified. The Board is of the view that the fact that a security may be subject to an "in whole" or "in part" call is a material fact for an individual making an investment decision about the securities and has further required in rule G-15a(iii)(D)[†] that confirmations of transactions in callable securities must state that the resulting yield may be affected by the exercise of a call provision, and that information relating to call provisions is available upon request.[2]

With respect to the computation of yields and dollar prices, rule G-15(a)(i)(I)[‡] requires that the yield and dollar price for the transaction be disclosed as the price (if the transaction is done on a yield basis) or yield (if the transaction is done on the basis of a dollar price) calculated to the lowest price or yield to call, to par option, or to maturity. The provision also requires, in cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, that this must be stated and the call or option date and price used in the calculation must be shown. The Board has determined that, for purposes of making this computation, only "in whole" calls should be used.[3] This requirement reflects the longstanding practice of the municipal securities industry and advises a purchaser what amount of return he can expect to realize from the investment and the terms under which such return would be realized.

You also ask whether it is reasonable to infer from the discharge of one call feature that no other call features exist. As discussed above, the Board requires a customer confirmation to disclose, when applicable, that a security is subject to redemption prior to maturity and that the call feature may affect the security's yield. This requirement applies to securities subject to either "in whole" or "in part" calls. Moreover, as noted earlier, because information concerning call features is material information, principles of fair dealing embodied by rule G-17 require that these details be disclosed orally at the time of trade.

By contrast, identification of the first "in-whole" call date and its price must be made only when they are used to compute the yield or resulting dollar price for a transaction. This disclosure is designed only to advise an investor what information was used in computing the lowest of yield or price to call, to par option, or to maturity and is not meant to describe the only call features of the municipal security.

In addition, in the case of the sale of new issue securities during the underwriting period, Board rule G-32 requires that … a copy of the final official statement, if any, must be provided to the customer.[4] While the official statement would describe all call features of an issue, it must be emphasized that delivery of this document does not relieve a dealer of its obligation to advise a customer of material characteristics and facts concerning the security at the time of trade.

Finally, you ask whether the omission of this or other call features on the confirmation is a material omission of the kind which would be actionable under SEC rule 10b-5. The Board is not empowered to interpret the Securities Exchange Act or rules thereunder; that responsibility has been delegated to the Securities and Exchange Commission. We note, however, that the failure to disclose the existence of a call feature would violate rule G-15 and, in egregious situations, also may violate rule G-17, the Board's fair dealing rule. *MSRB interpretation of February 10, 1984.*

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1 Similar requirements are specified in rule G-12 for confirmations of inter-dealer transactions.

2 The rule states that this requirement will be satisfied by placing in footnote or otherwise the statement:

"[Additional] call features … exist [that may] affect yield; complete information will be provided upon request."

3 *See* [Rule G-15 Interpretation — Notice concerning pricing to call], December 10, 1980 … at ¶ 3571.

4 The term underwriting period is defined in rule G-11 as:

the period commencing with the first submission to a syndicate of an order for the purchase of new issue municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending at such time as the issuer delivers the securities to the syndicate or the syndicate no longer retains an unsold balance of securities, whichever last occurs.

[*] [Currently codified at rule G-15 (a)(i)(C).]

[†] [Currently codified at rule G-15 (a)(i)(C)(2)(a).]

[‡] [Currently codified at rule G-15 (a)(i)(A)(5).]

NOTE: Revised to reflect subsequent amendments.

Calculation of price and yield on continuously callable securities. This will respond to your letter of May 30, 1989, relating to the calculation of price and yield in transactions involving municipal securities which can be called by the issuer at any time after the first optional "in-whole" call date. The Board reviewed your letter at its August 1989 meeting and has authorized this response.

Rules G-12(c) and G-15(a) govern inter-dealer and customer confirmations, respectively. For transactions executed on a yield basis, rules G-12(c)(v)(l) and G-15(a)(v)(l)[*] require the dollar price computed from yield and shown on the confirmation to be computed to the lower of call or maturity. The rules also require the call date and price to be shown on the confirmation when securities are priced to a call date.

In computing price to call, only "in-whole" calls, of the type which may be exercised in the event of a refunding, should be used.[1] The "in-whole" call producing the lowest price must be used when computing price to call. If there is a series of "in-whole" call dates with declining premiums, a calculation to the first premium call date generally will produce the lowest price to call. However, in certain circumstances involving premiums which decline steeply over a short time, an "intermediate" call date — a date on which a lower premium or par call becomes operative — may produce the lowest price. Dealers must calculate prices to intermediate call dates when

this is the case.[2] Identical rules govern the computation and display of yield to call and yield to maturity, as required on customer confirmations under rule G-15(a).

The issues that you describe are callable at declining premiums, in part or in whole, at any time after the first optional call date. There is no restriction on the issuer in exercising a call after this date except for the requirement to give 30 to 60 days notice of the redemption. Since this "continuous" call provision is an "in-whole" call of the type which may be used for a refunding, it must be considered when calculating price or yield.

The procedure for calculating price to call for these issues is the same as for other securities with declining premium calls. Dealers must take the lowest price possible from the operation of an "in-whole" call feature, compare it to the price calculated to maturity and use the lower of the two figures on the confirmation. For settlement dates prior to the first "in-whole" call, it generally should be sufficient to check the first and intermediate call dates (including the par call), determine which produces the lowest price, and compare that price to the price calculated to maturity. For settlement dates occurring after the first "in-whole" call date, it must be assumed that a notice of call could be published on the day after trade date, which would result in the redemption of the issue 31 days after trade date.[3] The price calculated to this possible redemption date should be compared to prices calculated to subsequent intermediate call dates and the lowest of these prices used as the price to call. The price computed to call then can be compared to the price computed to maturity and the lower of the two included on the confirmation. If a price to call is used, the date and redemption price of the call must be stated. Identical procedures are used for computing yield from price for display on customer confirmations under rule G-15(a).

You also have asked for the Board's interpretation of two official statements which you believe have a continuous call feature and ask whether securities with continuous call features typically are called between the normal coupon dates. The Board's rulemaking authority does not extend to the interpretation of official statements and the Board does not collect information on issuer practices in calling securities. Therefore, the Board cannot assist you with these inquiries. *MSRB interpretation of August 15, 1989.*

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[1] The parties to a transaction may agree at the time of trade to price securities to a date other than an "in-whole" call date or maturity. If such an agreement is reached, it must be noted on the confirmation.

[2] *See* [Rule G-15 Interpretation] Notice Concerning Pricing to Call, December 10, 1980, *MSRB Manual* (CCH) paragraph 3571.

[3] If a notice of call for the entire issue occurs on or prior to the trade date, delivery cannot be made on the transaction and it must be worked out or arbitrated by the parties. See rules G-12(e)(x)(B) and G-15(c)(viii)(B).

[*] [Currently codified at rule G-15(a)(i)(A)(5)(c).]

Callable securities: pricing to mandatory sinking fund calls. This is in response to your February 21, 1986 letter concerning the application of rule G-15(a) regarding pricing to prerefunded bonds with mandatory sinking fund calls.

You give the following example:

Bonds, due 7/1/10, are prerefunded to 7/1/91 at 102. There are $17,605,000 of these bonds outstanding. However, there is a mandatory sinking fund which will operate to call $1,000,000 of these bonds at par every year from 7/1/86 to 7/1/91. The balance ($11,605,000) then will be redeemed 7/1/91 at 102. If this bond is priced to the 1991 prerefunded date in today's market at a 6.75 yield, the dollar price would be approximately 127.94. However, if this bond is called 7/1/86 at 100 and a customer paid the above price, his/her yield would be a minus 52 percent (-52%) on the called portion.

You state that the correct way to price the bond is to the 7/1/86 par call at a 5% level which equates to an approximate dollar price of 102.61. The subsequent yield to the 7/1/91 at 102 prerefunded date would be 12.33% if the bond survived all the mandatory calls to that date. You note that a June 8, 1978, MSRB interpretation states, "the calculation of dollar price to a premium call or par option date should be to that date at which the issuer may exercise an option to call the whole of a particular issue or, in the case of serial bonds, a particular maturity, and not to the date of a call in-part." You believe, however, that, as the rule is presently written, dealers are leaving themselves open for litigation from customers if bonds, which are trading at a premium, are not priced to the mandatory sinking fund call. You ask that the Board review this interpretation.

Your letter was referred to a Committee of the Board which has responsibility for interpreting the Board's fair practice rules. That Committee has authorized this response.

Rule G-15(a)(i)(I)[*] requires that on customer confirmations the yield and dollar price for the transaction be disclosed as the price (if the transaction is done on a yield basis) or yield (if the transaction is done on the basis of the dollar price) calculated to the lowest price or yield to call, to par option, or to maturity. The provision also requires, in cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, that this must be stated and the call or option date and price used in the calculation must be shown. The Board has determined that, for purposes of making this computation, only "in-whole" calls should be used.[1] This requirement reflects the longstanding practice of the municipal securities industry that a price calculated to an "in-part" call, such as a sinking fund call, is not adequate because, depending on the probability of the call provision being exercised and the portion of the issue subject to the call provision, the effective yield based on the price to a sinking fund date may not bear any relation to the likely return on the investment.

Rule G-15(a)(i)(I)[*] applies, however, only when the parties have not specified that the bonds are priced to a specific call date. In some circumstances, the parties to a particular transaction may agree that the transaction is effected on the basis of a yield to a particular date, *e.g.* put option date, and that the dollar price will be computed in this fashion. If that is the

case, the yield to this agreed upon date must be included on confirmations as the yield at which the transaction was effected and the resulting dollar price computed to that date, together with a statement that it is a "yield to [date]." In an August 1979 interpretive notice on pricing of callable securities, the Board stated that, under rule G-30, a dealer pricing securities on the basis of a yield to a specified call feature should take into account the possibility that the call feature may not be exercised.[2] Accordingly, the price to be paid by the customer should reflect this possibility, and the resulting yield to maturity should bear a reasonable relationship to yields on securities of similar quality and maturity. Failure to price securities in such a manner may constitute a violation of rule G-30 since the price may not be "fair and reasonable" in the event the call feature is not exercised. The Board also noted that the fact that a customer in these circumstances may realize a yield in excess of the yield at which the transaction was effected does not relieve a municipal securities dealer of its responsibilities under rule G-30.

Accordingly, the calculation of the dollar price of a transaction in the securities in your example, unless the parties have agreed otherwise, should be made to the prerefunded date. Of course, under rule G-17 on fair dealing, dealers must explain to customers the existence of sinking fund calls at the time of trade. The sinking fund call, in addition, should be disclosed on the confirmation by an indication that the securities are "callable." The fact that the securities are prerefunded also should be noted on the confirmation. *MSRB Interpretation of April 30, 1986.*

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[1] *See* [Rule G-15 Interpretation — Notice Concerning Pricing to Call], December 10, 1980 at ¶ 3571.

[2] *See* [Rule G-30 Interpretation — Interpretive Notice on Pricing of Callable Securities], August 10, 1979 … at ¶ 3646.

[*] [Currently codified at rule G-15 (a)(i)(A)(5).]

Disclosure of pricing: calculating the dollar price of partially prerefunded bonds. This is in response to your March 21, 1986 letter concerning the application of Board rules to the description of municipal securities provided at or prior to the time of trade and the application of rules G-12(c) and G-15(a) on calculating the dollar price of partially prerefunded bonds with mandatory sinking fund calls.

You describe an issue, due 10/1/13. Mandatory sinking fund calls for this issue begin 10/1/05 and end 10/1/13. Recently, a partial refunding took place which prerefunds the 2011, 2012 and 2013 mandatory sinking fund requirements totaling $11,195,000 (which is 43.6% of the issue) to 10/1/94 at 102. The certificate numbers for the partial prerefunding will not be chosen until 30 days prior to the prerefunded date. Thus, a large percentage of the bonds are prerefunded and all the bonds will be redeemed by 10/1/10 because the 2011, 2012, and 2013 maturities no longer exist.

You note that the bonds should be described as partially prerefunded to 10/1/94 with a 10/1/10 maturity. Also, you state that the price of these securities should be calculated to the cheapest call, in this case, the partial prerefunded date of 10/1/94 at 102. You add that there is a 9½ point difference in price between calculating to maturity and to the partially prerefunded date.

You note that the descriptions you have seen on various brokers' wires do not accurately describe these securities and a purchaser of these bonds would not know what they bought if the purchase was based on current descriptions. You ask the Board to address the description and calculation problems posed by this issue.

Your letter was referred to a Committee of the Board which has responsibility for interpreting the Board's fair practice rules. That Committee has authorized this response.

Board rule G-17 provides that

> In the conduct of its municipal securities business, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.

In regard to inter-dealer transactions, the items of information that professionals must exchange at or prior to the time of trade are governed by principles of contract law and essentially are those items necessary adequately to describe the security that is the subject of the contract. As a general matter, these items of information do not encompass all material facts, but should be sufficient to distinguish the security from other similar issues. The Board has interpreted rule G-17 to require dealers to treat other dealers fairly and to hold them to the prevailing ethical standards of the industry.[1] The rule also prohibits dealers from knowingly misdescribing securities to another dealer.[2]

Board rules G-12(c) and G-15(a) require that

> where a transaction is effected on a yield basis, the dollar price shall be calculated to the lowest of price to call, price to par option, or price to maturity ...

In addition, for customer confirmations, rule G-15(a) requires that

> for transactions effected on the basis of dollar price, ... the lowest of the resulting yield to call, yield to par option, or yield to maturity shall be shown....

These provisions also require, in cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, that this must be stated and the call or option date and price used in the calculation must be shown. The Board has determined that, for purposes of making this computation, only "in-whole" calls should be used.[3] This requirement reflects the longstanding practice of the municipal securities industry that a price calculated to an "in-part" call, for example, a partial prerefunding date, is not adequate because, depending on the probability of the call provision being exercised and the portion of the issue subject to the call

provision, the effective yield based on the price to a partial prerefunding date may not bear any relation to the likely return on the investment.

These provisions of Rules G-12(c) and G-15(a) apply, however, only when the parties have not specified that the bonds are priced to a specific call date. In some circumstances, the parties to a particular transaction may agree that the transaction is effected on the basis of a yield to a particular date, *e.g.*, a partial prerefunding date, and that the dollar price will be computed in this fashion. If that is the case, the yield to this agreed upon date must be included on confirmations as the yield at which the transaction was effected and the resulting dollar price computed to that date, together with a statement that it is a "yield to [date]." In an August 1979 interpretive notice on pricing of callable securities, the Board stated that, under rule G-30, a dealer pricing securities sold to a customer on the basis of a yield to a specified call feature should take into account the possibility that the call feature may not be exercised.[4]

Accordingly, the price to be paid by the customer should reflect this possibility, and the resulting yield to maturity should bear a reasonable relationship to yields on securities of similar quality and maturity. Failure to price securities in such a manner may constitute a violation of rule G-30 since the price may not be "fair and reasonable" in the event the call feature is not exercised. The Board also noted that the fact that a customer in these circumstances may realize a yield in excess of the yield at which the transaction was effected does not relieve a municipal securities dealer of its responsibilities under rule G-30.

Accordingly, the calculation of the dollar price of a transaction in the securities you describe, unless the parties have agreed otherwise, should be made to the lowest of price to the first in-whole call, par option, or maturity. While the partial prerefunding effectively redeems the issue by 10/1/10, the stated maturity of the bond is 10/1/13 and, subject to the parties agreeing to price to 10/1/10, the stated maturity date should be used. *MSRB interpretation of May 15, 1986.*

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1 In addition, the Board has interpreted this rule to require that, in connection with the purchase from or sale of a municipal security to a customer, at or before execution of the transaction, a dealer must disclose all material facts concerning the transaction which could affect the customer's investment decision, including a complete description of the security, and not omit any material facts which would render other statements misleading.

2 While the Board does not have any specific disclosure requirements applicable to dealers at the time of trade, a dealer is free to disclose any unique aspect of an issue. For example, in the issue described above, a dealer may decide to disclose the "effective" maturity date of 2010, as well as the stated maturity date of 2013.

3 *See* [Rule G-15 Interpretation — Notice Concerning Pricing to Call], December 10, 1980 … at ¶ 3571.

4 *See* [Rule G-30 Interpretation — Interpretive Notice on Pricing of Callable Securities] August 10, 1979 … at ¶ 3646.

Disclosure of the investment of bond proceeds. This is in response to your letter asking whether rule G-15(a), on customer confirmations, requires disclosure of the investment of bond proceeds.

Rule G-15(a)(i)(E)[*] requires dealers to note on customer confirmations the description of the securities, including, at a minimum

> the name of the issuer, interest rate, maturity date and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities, and in the case of any securities, if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service or, if there is more than one such obligor, the statement "multiple obligors" may be shown.

The Board has not interpreted this provision as requiring disclosure of the investment of bond proceeds.

Of course, rule G-17, on fair dealing, has been interpreted by the Board to require that, in connection with the purchase from or sale of a municipal security to a customer, at or before execution of the transaction, a dealer must disclose all material facts concerning the transaction which could affect the customer's investment decision and must not omit any material facts which would render other statements misleading. Thus, if information on the investment of bond proceeds of a particular issue is a material fact, Board rules require disclosure at the time of trade. *MSRB Interpretation of August 16, 1991.*

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[*] [Currently codified at rules G-15(a)(i)(B) and G-15(a)(i)(C).]

Agency transactions: remuneration. This will acknowledge receipt of your letter dated November 1, 1977 in which you request an interpretation concerning the provision in Board rule G-15(b)(ii)[*] which requires that "the source and amount of any commission or other remuneration" received by a municipal securities dealer in a transaction in which the municipal securities dealer is acting as agent for a customer be disclosed on the confirmation to the customer.

The reference to the "amount of any commission or other remuneration" requires that an aggregate dollar amount be shown, in a purchase transaction on behalf of an equivalent of the dealer concession, and, if applicable, any additional charge to the customer above the price paid to the seller of the securities. In a sale transaction on behalf of a customer, this would normally be the difference between the net price paid by the purchaser of the securities and the proceeds to the customer. If a percentage of par value or unit profit were shown it would be difficult for many customers to relate this information to the "total dollar amount of [the] transaction" required by rule G-15(a)(xi)[†] to be shown on the confirmation.

The reference in rule G-15(b)(ii)[*] to the "source" of remuneration would not require you to differentiate between the concession and any additional charge. Standard language could be included on the confirmation to indicate that your remuneration may include dealer concessions and other charges. *MSRB interpretation of November 10, 1977.*

[*] [Currently codified at rule G-15(a)(i)(A)(1)(c).]

[†] [Currently codified at rule G-15(a)(i)(A)(6)(a).]

Agency transaction: pricing. This will acknowledge receipt of your letter of March 17, 1981 concerning the appropriate method of disclosing remuneration on agency transactions. In your letter you indicate that the bank wishes to use one of the following two legends, as appropriate, in disclosing such remuneration:

1) "Commission: Agency Fee $ ... per $1,000 of par value included in/deducted from net price to customer;" or

2) "Commission: Concession received from broker/dealer $ ... per $1,000 of par value."

You inquire whether these legends, indicating the amount of remuneration on a "dollars per bond" basis, are satisfactory for purposes of rule G-15.

Rule G-15(b)[*] requires that

> [i]f the broker, dealer or municipal securities dealer is effecting a transaction as agent for the customer or as agent for both the customer and another person, the confirmation shall set forth ... the source and amount of any commission or other remuneration received or to be received by the broker, dealer or municipal securities dealer in connection with the transaction.

As you are aware, the Board has previously interpreted this provision to require that an aggregate dollar amount be shown. The Board adopted this position due to its belief that many customers would find it difficult to interpret the meaning of a statement disclosing the remuneration as a percentage of par value or a unit profit per bond, or to relate this information to the "total dollar amount of [the] transaction" required to be shown under G-15(a)(xi)[†].

Accordingly, we are unable to conclude that disclosure of the remuneration in the manner in which you suggest would be satisfactory for purposes of the rule. The total dollar amount of the remuneration should be set forth on the confirmation. *MSRB interpretation of April 23, 1981.*

[*] [Currently codified at rule G-15(a)(i)(A)(1)(e).]

[†] [Currently codified at rule G-15(a)(i)(A)(6)(a).]

Agency transaction: pricing. Your letter of August 3, 1979 has been referred to me for response. In your letter you inquire as to the relationship between the requirements to show on customers confirmations the "yield at which transaction is effected" and the "resulting dollar price," particularly in the context of agency transactions where the professional receives a concession or other dealer reallowance as its remuneration. Under rule G-15, the dollar price disclosed to a customer must be calculated on the basis of the yield at which the transaction was effected. This calculation is made without reference to any possible concession or other allowance which a municipal securities dealer may receive from another municipal securities professional. Accordingly, the dollar price shown on a customer confirmation will always be derived directly from the yield price.

For example, a municipal securities dealer seeking to purchase $100,000 fifteen-year bonds with a 5% coupon as agent for a customer would commonly purchase the securities from another professional at a yield price less a concession (*e.g.*, "5.60½"), and confirm to the customer at the net yield price ("5.60"), retaining the concession as its remuneration. In our example, the customer confirmation would be required to disclose the "yield at which transaction is effected" ("5.60"), the "resulting dollar price" ("93.96"), and the fact that the dealer received $500 as its remuneration in the form of a dealer concession. The dollar price is computed directly from the yield price, and is not net of the concession received.

The confusion may arise from comparing the confirmation sent to a customer to the confirmation sent to the professional on the other side of a transaction. On the inter-dealer confirmation, the "yield at which transaction is effected" will be shown, as well as the amount of the concession, but the unit dollar price may be expressed net of the concession (in our example, "93.46," being the gross dollar price of "93.96" less the ½ point reallowance). This may give the appearance of a difference in price between the purchase and sale confirmations, but in fact both transactions are being effected at the same yield price (in our example, "5.60"), and the dollar price disclosed to the customer is the result of this yield. *MSRB interpretation of September 20, 1979.*

NOTE: The above letter refers to the text of rule G-15 as in effect prior to amendments effective on January 16, 1992.

Agency transactions: yield disclosures. I am writing in connection with your previous conversations with Christopher Taylor of the Board's staff concerning the application of the yield disclosure requirements of Board rule G-15 to certain types of transactions in municipal securities. In your conversations you noted that dealers occasionally effect transactions in municipal securities on an "agency" basis. In these transactions the customer's confirmation would typically show as the dollar price of the transaction the price paid by the dealer to the person from whom it acquired the securities; the dealer's remuneration, received in the form of a commission paid by the customer, is typically shown separately, as a charge included in the summing of the total dollar amount due from (or to) the customer in connection with the transaction. You inquired whether, in such a transaction, the yield to the customer disclosed on the confirmation should be derived from the price shown as the dollar price of the transaction or from the total dollar amount of the transaction (*i.e.*, whether the yield should show the effect of the commission charged).

This will confirm Mr. Taylor's advice to you that the yield shown on the confirmation of such a transaction should be derived from the total dollar amount of the transaction, and therefore should show the effect of the commission charged to the customer on the transaction. As the Board has previously stated, the yield disclosure on customer confirmations is intended to provide customers with a means of assessing the merits of alternative investment strategies and the merits of the transaction being confirmed. The disclosure of the yield after giving effect to the commission charged the customer best serves these purposes. *MSRB interpretation of July 13, 1984.*

Disclosure of pricing: accrued interest. This is in response to your request by telephone for an interpretation of Board rule G-15 which requires that a municipal securities dealer provide to his customer, at or prior to completion of a transaction, a written confirmation containing certain general information including the amount of accrued interest. Specifically, you have asked whether the rule permits a municipal securities dealer, in using one confirmation to confirm transactions in several different municipal securities of one issuer, to disclose the amount of accrued interest for the bonds as an aggregate figure. You have advised us that, typically, such a confirmation will show other items of information required by the rule such as yield and dollar price, separately for each issue.

Rule G-15 was adopted by the Board to assure that confirmations of municipal securities transactions provide investors with certain fundamental information concerning transactions. The Board believes that disclosure of accrued interest as an aggregate sum does not permit investors to determine easily from the confirmation the amount of accrued interest attributable to each security purchased, but rather necessitates the performance of several computations. It, thus, would be more difficult for an investor to determine whether the information concerning accrued interest is correct if the information is presented in aggregate form.

Such a result is inconsistent with the purposes of rule G-15. Accordingly, the Board has concluded that, under rule G-15, the amount of accrued interest must be shown for each issue of bonds to which the customer confirmation relates. *MSRB interpretation of July 27, 1981.*

Yield disclosures. This letter is in response to your inquiry of April 14, 1981 concerning the application of the yield disclosure requirements of Board rule G-15 to a particular transaction effected by your firm. As I indicated to you in my letter of May 9, 1981, the Board was unable to consider your inquiry at its April meeting, and, accordingly, deferred the matter to its July meeting. At that meeting the Board took up your question and authorized my sending you this answer to your inquiry. While we realize that the matter is now moot with respect to the particular transaction about which you were writing, we assume that this question may arise again with respect to future transactions.

In your April 14 letter you inquired concerning a recent sale of new issue securities to a customer. You indicated that the firm had sold all twenty maturities of the new issue to a customer. This sale had been effected at the same premium dollar price for all maturities, and the customer had been advised of the average life of the issue and the yield to the average life. You inquired whether the final money confirmation of this sale should show "one dollar price ... and one yield to the average life," or the dollar price and each of the yields to the twenty different maturities of the issue.[1]

Rule G-15(a)(viii)(B)[*] requires that customer confirmations of transactions in noncallable securities effected on the basis of a dollar price set forth the dollar price and the resulting yield to maturity. In the situation you describe, it would be difficult to conclude that the rule would permit the confirmation to show only a "yield to the average life," omitting any yield to maturity information. Although the "yield to the average life" would provide the customer with some indication of the return on his or her investment, the customer could easily make the mistake of assuming that this would be the yield on all of the securities, and not realize that it is the result of differing yields, with lower yields on the short-term maturities and higher yields on the long-term ones. The Board believes that disclosure of each of the yields to the twenty maturities of the issue would provide the customer with much more accurate information concerning the return on his or her investments. Accordingly, the Board concludes that, in a transaction of this type, the final money confirmation(s) should set forth each of the yields. *MSRB interpretation of July 27, 1981.*

[1] Although you did not indicate this, we assume that all of these securities are noncallable.

[*] [Currently codified at rule G-15(a)(i)(A)(5)(b).]

Yield disclosures: transactions at par. I am writing in response to your letter of April 2, 1982, concerning certain of the yield disclosure requirements of Board rule G-15 on customer confirmations. In your letter you note that item (C) of rule G-15(a)(viii)[*] requires that "for transactions at par, the dollar price shall be shown" on the confirmations of such transactions, and you inquire whether it is necessary to show a yield on such confirmations.

Please be advised that a confirmation of a transaction effected at par (*i.e.*, at a dollar price of "100") need show only the dollar price "100" and need not, under the terms of the rule, show the resulting yield.

I note, however, that a transaction effected on the basis of a yield price equal to the interest rate of the security which is the subject of the transaction would be considered, for purposes of the rule, to be a "transaction effected on a yield basis," and therefore would be subject to the requirements of item (A) of rule G-15(a)(viii)[†]. The confirmation of such transaction would therefore be required to state "the yield at which [the] transaction was effected and the resulting dollar price[.]" *MSRB interpretation of April 8, 1982.*

[*] [Currently codified at rule G-15(a)(i)(A)(5)(b)(ii).]

[†] [Currently codified at rule G-15(a)(i)(A)(5)(a).]

Yield disclosures: yields to call on zero coupon bonds. I am writing in response to your letter of October 18, 1983 concerning the appropriate method of disclosing on a confirmation a call price used in the computation of a dollar price or yield on a transaction in a zero coupon, compound interest, multiplier, or other similar type of security. In your letter you indicate that the call features on these types of securities often express the call prices in terms of a percentage of the compound accreted value of the security as of the call date.[1] You note that, in computing a price or yield to such a call feature, it is necessary for the computing dealer to convert such a call price into its equivalent in terms of a percentage of maturity value (*i.e.*, into a standard dollar price), and use this figure in the computation. You inquire whether, in circumstances where the confirmation of a transaction is required to disclose a yield or dollar price computed to such a call feature, the call price used in the calculation should be stated on the confirmation in terms of the percentage of the compound accreted value or in terms of the equivalent percentage of maturity value.

The requirement which is the subject of your inquiry is set forth in Board rule G-15(a)(i)(I)[*] as follows:

> In cases in which the resulting dollar price or yield shown on the confirmation is calculated to call or par option, this must be stated, and the call or option date and price used in the calculation must be shown...[2]

The Board is of the view that, in the case of a computation of a yield or dollar price to a call or option feature on a transaction in a zero coupon or similar security, the call price shown on the confirmation should be expressed in terms of a percentage of the security's maturity value. The Board believes that the disclosure of the call price in terms of the security's maturity value would provide more meaningful information to the purchaser, since other confirmation disclosure on these types of securities are also expressed in terms of the security's maturity value. This form of disclosure therefore presents the information to a purchaser in a consistent format, thereby facilitating the purchaser's understanding of the information shown on the confirmation. The Board notes also that this form of disclosure is simpler and requires less confirmation space to present. *MSRB interpretation of January 4, 1984.*

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1 For example, the selected portions of an official statement describing one of these types of issues enclosed with your letter indicate that the security in question is callable on October 1, 1993 at 108% of the security's compound accreted value on that date (which is indicated elsewhere in the official statement to be $146.02 per $1,000 of maturity value).

2 Comparable requirements with respect to inter-dealer confirmations are set forth in Board rule G-12(c)(v)(I).

[*] Currently codified at rule G-15(a)(i)(A)(5).]

Particularity of legend. I refer to your recent letter in which you inquired regarding the appropriateness of using a particular legend to satisfy certain requirements of rule G-15 on customer confirmations. As you note in your letter, rule G-15 requires that information concerning time of execution of a transaction and the iden-tity of the contra-side of an agency transaction be furnished to customers, at least upon request. You have requested advice as to whether the following legend satisfies the requirements of rule G-15 with respect to this information:

"Other details about this trade may be obtained by written request to the above address."

We are of the opinion that the legend in question does not satisfy the requirements of rule G-15 because it is too general in nature. The legend does not sufficiently apprise customers of their right to obtain information pertaining to the time of execution of a transaction or the identity of the contra-party, as contemplated by rule G-15. A legend specifically alluding to the availability of such information is necessary to satisfy the rule.

The Board has not adopted a standardized form, nor approved particular language for use in compliance with the requirements of the rule. I believe, however, that [Name deleted] is a member of the Dealer Bank Association. I suggest that you refer to the Forms Book prepared by the Dealer Bank Association, which may be of help to you. *MSRB interpretation of March 6, 1979.*

Securities description: revenue securities. I am writing in response to your letter of September 30, 1982 regarding the confirmation description of revenue securities. In your letter you note that the designation "revenue" is often not included in the title of the security, and you raise several questions concerning the method of deriving a proper confirmation description of revenue securities.

As you know, rule G-15(a)(v)[*] requires that customer confirmations set forth a description of the securities [involved in the transaction] including at a minimum the name of the issuer, interest rate, maturity date and *if the securities are ... revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete description of the securities*...[1] [emphasis added]

The rule requires, therefore, that revenue securities be designated as such, regardless of whether or not such designation appears in the formal title of the security. The dealer preparing the confirmation is responsible for ensuring that the designation is included in the securities description. In circumstances in which standard sources of descriptive information (*e.g.*, official statements, rating agency and service bureau publications, and the like) do not include such a designation in the security title, therefore, the dealer must augment this title to include the requisite information.

In your letter you inquire as to who is responsible for providing this type of descriptive information to the facilities manager of the CUSIP system. Although the Board does not currently have any requirements concerning this matter, proposed rule G-34 will, when approved by the Securities and Exchange Commission, require that the managing underwriter of a new issue of municipal securities apply for the

assignment of CUSIP numbers of such new issue if no other person (*i.e.*, the issuer or a person acting on behalf of the issuer) has already applied for number assignment. In connection with such application, if one is necessary, the managing underwriter is required, under the proposed rule, to provide certain information about the new issue, including a designation of the "type of issue (*e.g.*, general obligation, limited tax, or revenue)" and an indication of the "type of revenue, if the issue is a revenue issue."

In your letter you also ask for "the official definition of a 'revenue' issue." There is no "official definition" of what constitutes a revenue issue. Various publications include a definition of the term (*e.g.*, the PSA's *Fundamentals of Municipal Bonds*, the State of Florida's *Glossary of Municipal Securities Terms*, etc.) and I would urge you to consult these for further information. *MSRB interpretation of December 1, 1982.*

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[1] Rule G-12(c)(v)(E) sets forth the same requirement with respect to inter-dealer confirmations.

[*] [Currently codified at rules G-15(a)(i)(B) and G-15(a)(i)(C).]

Securities description: securities backed by letters of credit. I am writing in connection with our previous telephone conversation of last June regarding the confirmation of a transaction in a municipal issue secured by an irrevocable letter of credit issued by a bank. In our conversation you noted that both rules G-12 and G-15 require confirmations to contain a:

> description of the securities including at a minimum..., if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service...

You inquired whether the name of the bank issuing a letter of credit securing principal and interest payments on an issue, or securing payments under the exercise of a put option or tender option feature, need be stated on the confirmation.

At that time I indicated to you that the identity of the bank issuing the letter of credit would have to be disclosed on the confirmation if the letter of credit could be drawn upon to cover scheduled interest and principal payments when due, since the bank would be "obligated ... with respect to debt service." I am writing to advise that the committee of the Board which reviewed a memorandum of our conversation has concluded that a bank issuing a letter of credit which secures a put option or tender option feature on an issue is similarly "obligated ... with respect to debt service" on such issue. The identity of the bank issuing the letter of credit securing the put option must therefore also be indicated on the confirmation. *MSRB interpretation of December 2, 1982.*

Automated clearance: "internal" transactions. As you are aware, the Board has been considering for the past year the adoption of amendments to the Board rules to mandate the use of automated confirmation/comparison and book-entry settlement systems in connection with the clearance of certain inter-dealer and customer transactions in municipal securities. In connection with its consideration of this matter, the Board released, in July 1982, an exposure draft of a proposal to apply such requirements to customer transactions, and, in March 1983, two exposure drafts of comparable proposals with respect to customer transactions and inter-dealer transactions. The Board has recently taken action on these proposals, and adopted amendments to its rules, substantially along the lines of the March 1983 proposals, for filing with the Securities and Exchange Commission; a copy of the notice of filing of these amendments is enclosed for your information.

[The bank] commented to the Board on both the July 1982 exposure draft, by letter dated October 15, 1982 from [name omitted] of the bank's Operations Department, and on the March 1983 exposure drafts, by letter dated June 1, 1983 from yourself. In these letters, among other comments, the bank suggested that the proposed requirement for the use of automated confirmation and book-entry settlement systems on certain customer transactions should not apply in circumstances where the transaction is between the bank's dealer department and a customer who clears or safekeeps securities through the dealer department or through the bank's custodian or safekeeping department. Your June 1983 letter, for example, commented as follows:

> Internal trades [with] customers of a dealer bank are not exempt from the amendment. This seems inconsistent with operating efficiency and the objectives of the amendment. Technically, a bank dealer would have to submit to [an automated confirmation and book-entry settlement system] trades made with customers who clear or safekeep through another department in the bank. If adopted, the amendment should allow for such an exemption.

I am writing to advise you that, in reviewing the comments on the July 1982 and March 1983 proposals, the Board concurred with this suggestion. The Board is of the view that the proposed requirement for the automated confirmation and book-entry settlement of certain customer transactions does not apply to a purchase or sale of municipal securities effected by a broker, dealer, or municipal securities dealer for the account of a customer in circumstances where the securities are to be delivered to or received from a clearance or safekeeping account maintained by the customer with the broker, dealer, or municipal securities dealer itself, or with a clearance or safekeeping department of an organization of which the broker, dealer, or municipal securities dealer is a division or department. *MSRB interpretation of September 21, 1983.*

Securities description: prerefunded securities. This is in response to your letter in which you ask when an issue of municipal securities may be described as prerefunded for purposes of Board rule G-12, on uniform practice, and rule G-15, on confirmation, clearance and settlement of transactions with customers. You describe a situation in which an outstanding issue of municipal securities is to be prerefunded by a new issue of municipal securities. You note that information on