[Release No. 34–35700; File No. SR–MSRB–95–4]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Customer Confirmations

May 10, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on March 30, 1995, the Municipal Securities Rulemaking Board (''Board'' or ''MSRB'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change (File No. SR–MSRB–95–4) as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization.[1] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Board is filing an amendment to rule G–15(a), on customer confirmations (hereinafter referred to as ''the proposed rule change''). The proposed rule change: (1) Will clarify the current customer confirmation requirements by reorganizing the rule and incorporating previous Board interpretations into the language of the rule; (2) will revise certain requirements in areas where the Board believes that more disclosure is necessary; and (3) will include certain other modifications to the current confirmation disclosure requirements.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

[1] Subsequently, the Board submitted a letter to extend the delay for effectiveness of the rule to 120 days following Commission approval. *See* letter from Marianne I. Dunaitis, Assistant General Counsel, MSRB, to Karl Varner, Staff Attorney, Division of Market Regulation, SEC, dated April 3, 1995.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Rule G–15(a) states various requirements for the format and content of confirmations to customers. As part of the Board's ongoing customer protection review, the Board has reviewed rule G–15(a), and the written disclosures provided to municipal securities customers. The proposed rule change represents one of several Board efforts to ensure that important information is disclosed to customers.

In response to market developments and regulatory concerns, rule G–15(a) has been subject to numerous amendments and Board interpretive notices since it was adopted in 1977. The proposed rule change will revise certain requirements in areas where the Board believes that more disclosure is necessary. The proposed rule change will clarify the current customer confirmation requirements by reorganizing the rule and incorporating previous Board interpretations into the language of the rule to promote better compliance. Other modifications to the rule's requirements also are proposed to simplify and clarify the requirements and to promote better compliance. The proposed rule change also will respond to recent revisions by the SEC to its Rule 10b–10, the confirmation rule applicable to transactions in securities other than municipal securities, and to its proposed Rule 15c2–13, to require certain disclosures to be made on confirmations for transactions in municipal securities.[2]

Reorganization of Current Rule Including Codification of Interpretations

The proposed rule change will clarify rule G–15(a) by reorganizing the rule and incorporating Board interpretations into the rule. Most requirements are subdivided by subject matter into three broad categories that comprise the content of municipal securities confirmations—terms of the transaction, securities identification, and securities description (listing the various features of the security). Under each category, Board rules and interpretations are organized by specific confirmation requirement. For example, under the securities identification section of the proposed rule change, all existing rules and Board interpretive notices specifying how the interest rate should be expressed on the confirmation for various categories of municipal securities transactions have been codified.[3] This reorganization should assist operations personnel in programming automated systems for generating municipal securities confirmations since it will no longer be necessary to review all previous interpretive notices on confirmations to find those that may address the statement of interest rate for a particular type of municipal security.

Revisions in Customer Confirmation Requirements

The proposed rule change will revise some requirements that the Board feels will strengthen the disclosure and customer protection objectives of the rule while updating the requirements of the customer confirmation.

Disclosure if a security is unrated. In November 1994, the SEC approved amendments to its Rule 10b–10 of the Securities Exchange Act, the confirmation rule applicable to transactions in securities other than municipal securities.[4] At the same time, the SEC deferred consideration of proposed Rule 15c2–13 that would have established certain confirmation requirements applicable to transactions in municipal securities. The SEC's amendments to Rule 10b–10 require, among other things, that dealers disclose if a debt security, other than a governmental security, has not been rated by a nationally recognized statistical rating organization. The SEC also had proposed a similar requirement for municipal SEC confirmations in its proposed Rule 15c2–13. The SEC noted that this disclosure is not intended to suggest that an unrated security is inherently riskier than a rated security; instead, this disclosure is intended to alert customers that they may wish to obtain further information or clarification from their dealer. Previously, the Board indicated in its comment letter to the SEC that, if the SEC determined that such information were needed by investors in debt securities, the Board would amend rule G–15 to include this requirement. The proposed rule change will include this provision in rule G–15(a)(i)(C)(3)(f).

Call provisions. Currently, for many bonds, only a designation of ''callable'' is required by rule G–15(a)(i)(E), along with the following legend provided by

[2] Securities Exchange Act Release No. 34962 (Nov. 10, 1994), 59 FR 59612, *corrected*, Securities Exchange Act Release No. 34962A (Nov. 25, 1994), 59 FR 60555.

[3] Categories include zero coupon securities, variable rate securities, securities with adjustable tender fees, stepped coupon securities, and stripped coupon securities.

[4] Securities Exchange Act Release No. 34962 (Nov. 10, 1994), 59 FR 59612, *corrected*, Securities Exchange Act Release No. 34962A (Nov. 25, 1994), 59 FR 60555.

rule G–15(a)(iii)(F) which can be indicated ''in a footnote or otherwise:'' ''Call features may exist which could affect yield; complete information will be provided upon request.'' Specifically, rule G–15(a)(i)(I) currently provides that disclosure of the date and price of the first in-whole call is required to be noted on the confirmation only if the security is priced to that call date. In addition, current rule G–15(a)(i)(I) requires that the price or yield calculated for a confirmation must be computed ''to the first in-whole call'' if this produces a lower price or yield than a calculation of price or yield to maturity. The Board's interpretation of December 10, 1980, *MSRB Manual* at ¶ 3571 describes the type of call features that are considered for purposes of these calculations (''pricing calls'').

The proposed rule change, in rule G–15(a)(i)(C)(2)(a), will revise the existing confirmation requirements regarding call features. It requires that the date and price of the next pricing call always be disclosed.[5] It also requires the following notation on the confirmation if any call features exist in addition to the next pricing call—''Additional call features exist that may affect yield; complete information will be provided upon request.'' The proposed rule change in rule G–15(a)(i)(E) will require this notation to be on the front of the confirmation. This substitutes for the current legend requirement, which typically has resulted in call legends being pre-printed on the back of the confirmation.

The Board believes that disclosure of call features is particularly important to customers and that the pre-printed legend on the back of the confirmation was not always effective in alerting customers to the existence of call features. The proposed rule change will put customers clearly on notice as to the presence of call features on the front of the confirmation, including a specific date and price for the next pricing call (one of the most important elements of call information) and the existence of any other call features in addition to this call.

Revenue bonds and additional obligors. Currently, with regard to revenue bonds, dealers are required under rule G–15(a)(i)(E) to disclose the source of revenue on the confirmation only ''if necessary for a materially complete description of the securities.'' The proposed rule change in rule G–15(a)(i)(C)(1)(a) will require dealers to put the primary revenue source for such bonds on the confirmation (*e.g.*, project name) and deletes the language ''if necessary for a materially complete description of the securities.'' The Board believes that requiring disclosure of the primary revenue source of revenue bonds on the confirmation will help ensure that customers receive important information about such bonds.

Additional obligors. Currently, with regard to additional obligors confirmation disclosure of such information currently is required under rule G–15(a)(i)(E) only ''if necessary for a materially complete description of the securities.'' In such instances, the confirmation must disclose 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 proposed rule change in rule G–15(a)(i)(C)(1)(b) will delete the language ''if necessary for a materially complete description of the securities;'' thus the amendment requires dealers always to identity the additional obligor on the confirmation or indicate ''multiple obligors'' if there is more than one additional obligor. The Board believes this will simplify and clarify the intent of the rule. The proposed rule change also will clarify that, if a letter of credit is used, the identity of the bank issuing the letter of credit must be noted.

Limited tax. Currently, rule G–15(a)(i)(E) provides that the description of the bonds should specify if they are ''limited tax.'' Traditionally, a limited tax bond is a general obligation bond secured by the pledge of a specified tax (usually the property tax) or category of taxes which is limited as to rate or amount. However, the meaning of this ''limited tax'' designation has become ambiguous as various states have implemented a variety of tax limitation measures and the Board is unaware of any clear standards that may be used to separate limited and unlimited tax municipal securities. The proposed rule change accordingly will delete the ''limited tax'' designation requirement.

Dealers acting as agent and receiving ''other remuneration''. Currently, rule G–15(a)(ii) provides that, in agency transactions, remuneration paid by the customer always must be disclosed, but if a dealer receives ''other'' remuneration (*i.e.*, remuneration from a source other than the customer), it is sufficient to indicate that other remuneration was received and that details will be furnished to the customer upon written request. The Board has received inquiries whether the ''discount'' received by a dealer in an inter-dealer transaction undertaken as agent for a customer should be considered as ''other remuneration.'' The proposed rule change in rule G–15(a)(i)(A)(1)(e) will clarify this by stating that in an agency transaction for a customer, if a dealer acquires a bond from another dealer at a discount (*e.g.*, ''net'' price less concession) and the customer pays the ''net'' price, the inter-dealer discount or concession received by the dealer cannot be considered ''other remuneration,'' but rather should be considered remuneration received from the customer. Thus, the proposed rule change will clarify that the amount of the ''discount'' or concession must be disclosed on the confirmation in these agency transactions pursuant to proposed rule G–15(a)(i)(A)(1)(e).

''Ex legal'' delivery designation. Currently, rule G–15(a)(iii)(I)(1) requires that the confirmation must note whether a transaction is ''ex-legal.'' This term refers to the absence of a written copy of the legal opinion to be included with the physical delivery of a bond certificate. This provision was adopted when nearly all deliveries of municipal securities were accomplished with physical deliveries of certificates which included a copy of the legal opinion. With the movement away from physical deliveries and the high percentage of book-entry-only securities in the market, the Board believes that this requirement is no longer necessary and the proposed rule change will delete the ''ex-legal'' delivery designation.

Zero coupon bonds. Currently, rule G–15(a)(v) provides a number of specific confirmation requirements for zero coupon bonds, including disclosure that the interest rate is 0% and, if the securities are callable and available in bearer form, a statement to that effect which can be satisfied by the following legend: ''No periodic payments—callable below maturity value without prior notice by mail to holder unless registered.'' The proposed rule change will retain these requirements.

In addition, the proposed change to rule G–15(a)(i)(A)(6)(h) will require that the amount of any premium paid over accreted value for callable zero coupon bonds be included on confirmations. The accreted value for a zero coupon bond reflects the increase in the security's value as it approaches the maturity date. For zero coupon bonds that are callable, the call price is

[5] The proposed rule change in rule G–15(a)(vi)(F) defines ''pricing call'' as a call feature that represents ''an in-whole call'' of the type that may be used by the issuer without restriction in a refunding. Consistent with the current rule, pricing calls do not include catastrophe calls, that is, calls which occur as a result of events specified in the bond indenture which are beyond the control of the issuer or calls that may operate to call part of an outstanding issue. *See* Interpretation of Nov. 7, 1977, published in *MSRB Manual* (CCH) at ¶ 3571.10.

generally at the accreted value. The Board believes it is important for customers to know that such securities may be affected by an early call and that a premium over the accreted value is being paid in the purchase price. In general, a customer purchasing a typical, interest-paying municipal security understands that a price above ''100'' indicates a premium price and that, if the security contains any call features, such features should be considered carefully. The importance of reviewing call features, however, is not as apparent with callable zero coupon securities, where a customer may not be aware of the relationship between a potential call price and the accreted value of the security being purchased. Accordingly, the proposed rule change will require dealers to disclose on the confirmation any premium paid over the accreted value for callable zero coupon bonds.

Original issue discount securities. Currently, a dealer must disclose on the confirmation whether securities are sold as ''original issue discount'' securities pursuant to rule G–15(a)(iii)(H). The proposed change to rule G–15(a)(i)(C)(4)(c) also will require the dealer to disclose the initial public offering price for the original issue discount security. The Board believes that this information is particularly important to customers since it may be needed for tax reasons also may be important if the security is subject to any early call.

First interest payment date (including if not semi-annual). Currently, rule G–15(a)(III)(A) states that the confirmation shall provide, if it affects the price or interest calculation, the first interest payment date if other than semi-annual. This provision is ambiguous as to whether the first interest payment date must be included on the confirmation in all instances in which there is no regular semi-annual interest payment, or only if the first payment date is necessary for purposes of calculation of final monies. The proposed change to rule G–15(a)(i)(A)(6)(g) will clarify that the first interest payment date is required on the confirmation only in those cases in which it is necessary for the calculation of final money. If would, for example, not be required for transactions in the issue occurring after the first interest payment date.[6]

Yield information. Currently, there is not a specific exemption for statement of yield on transactions in defaulted bonds, bonds that prepay principal and variable rate securities that are not sold on basis of yield to put. The proposed change to rule G–15(a)(i)(A)(5)(d) will include specific exemptions for these types of transactions.

Disclosure regarding CMOs. The SEC's amendment to its Rule 10b–10 provides that the dealer must include a statement on the confirmation indicating that the actual yield of non-municipal collateralized mortgage obligations (''CMOs'') may vary according to the rate at which the underlying receivables or other financial assets are prepaid, and a statement of the fact that information concerning the factors that affect yield (including, at a minimum, estimated yield, weighted average life, and the prepayment assumptions underlying yield) will be furnished upon the written request of a customer. The proposed change to rule G–15(a)(i)(D)(2) will include a similar provision regarding municipal CMOs.

Modifications and Clarifications to Confirmation Format

Multi-transaction data should not be aggregated on one confirmation. Currently, rule G–15(a) provides that, at or before the completion of a transaction in municipal securities, dealers must provide the customer with a written confirmation of the transaction. The current rule does not specifically indicate that customers should receive a separate confirmation for each transaction. The Board previously has stated that, if a customer purchased from a dealer several different securities of one issuer, it would be inappropriate for the dealer to aggregate on the confirmation the accrued interest for all the bonds acquired or to aggregate yield data and disclose the ''yield to the average life'' rather than providing yield to maturity information for each bond acquired.[7] The proposed change to G–15(a)(ii) will clarify that a separate confirmation should be provided for each municipal securities transaction whenever several transactions are done at one time.

Clarification of confirmation format. The proposed rule change will require that all disclosure, with certain exceptions, be clearly and specifically indicated on the front of the confirmation. To address concerns about the ''crowding'' of information on the front side of the confirmation, the proposed rule change will allow certain requirements to be met by statements on the back of the confirmation, namely: (1) The required legend for zero coupon bonds; (2) the requirement that permits a dealer in agency transactions, rather than naming the person from whom the securities were purchased or to whom the securities were sold, to include a statement that this information will be furnished upon the written request of the customer; and (3) the requirement that permits a dealer, rather than indicating the time of execution, to include a statement that the time of execution will be furnished upon the written request of the customer. In addition, consistent with the SEC's amendment to Rule 10b–10, the amendment will not require the disclosure statement for transactions in municipal collateralized mortgage obligations required in proposed rule change G–15(a)(i)(D)(2) to be on the front of the confirmation.

(b) The Board believes the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act, which provides that the Board's rules shall.

Be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.

The Board believes that the proposed rule change will protect investors and the public interest because it clarifies the current customer confirmation requirements by reorganizing the rule and incorporating previous Board interpretations into the language of the rule and it revises certain requirements in areas where the Board believes more disclosure is necessary.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Board does not believe that the proposed rule change, which will have an equal impact on dealers, will have any impact on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

June 1994 Request for Comments

In June 1994, as part of the Board's ongoing customer protection review, the Board requested comments on the proposed rule change, which was designed to clarify the current customer confirmation requirements by reorganizing the rule and incorporating previous Board interpretations into the language of the rule, and which also revised certain requirements where the Board

[6] Of course, the proposed change to rule G–15(a)(i)(C)(2)(e), consistent with current rule G–15(a)(iii)(I), provides if securities pay interest on other than semi-annual basis, a statement of the basis on which interest is paid.

[7] MSRB Interpretation of July 27, 1981, *MSRB Manual* (CCH) ¶¶ 3571.35 and 3571.41.

believed more disclosure was necessary.[8] The draft amendments published for comment were substantially similar to the proposed rule change.[9]

The Board received 12 comment letters from the following:

Automatic Data Processing (''ADP I'')
Beta Systems (''BETA'')
JB Hanauer & Co. (''Hanauer'')
Edward D. Jones & Co. (''Jones'')
Kenny S&P Information Services (''Kenny'')
Liberty Bank and Trust Co. (''Liberty'')
Pershing
Public Securities Association (''PSA'')
Rauscher Pierce Refsnes, Inc. (''Rauscher'')
Regional Municipal Operations Association (''RMOA'')
Securities Industry Software Corp./ Division of ADP (''ADP II'')
Sweeney Cartwright & Co. (''Sweeney'')

In general, the codification and reorganization of the rule received favorable comment, but some commentators raised concerns with certain provisions.

Comments Received

Call provisions. The draft amendment proposed to alter call disclosure on the confirmation in several ways. It would have required that the date and price of the first refunding call always be disclosed. It would have deleted the legend that generally is pre-printed on the back of the confirmation. Instead, if there were any call features in addition to the first refunding call, it would have required that disclosure be made on the front of the confirmation that ''special call features exist.''

Several commentators commented on the Board's proposal to improve the disclosure of call features on the customer confirmation. With regard to the proposed disclosure of the first in-whole call, two commentators believed that such disclosure would be beneficial to investors. Another commentator, however, suggested that the Board may wish to modify the draft language to require the date and price of the ''next'' pricing call, instead of the ''first pricing call, because after the first pricing call has passed, the ''next'' pricing call should be noted on the confirmation. The proposed rule change will incorporate this suggestion.

Some commentators supported the replacement of the current legend ''Call features may exist which could affect yield; complete information will be provided upon request,'' that generally is contained on the back of the confirmation, with the notation on the front of the confirmation that ''special call features exist,'' because they believed that an affirmative statement as to the presence of other call features would be beneficial to investors. In this regard, one commentator suggested the draft legend could be clarified by noting ''other call features exist'' instead of ''special call features exist.''

Other commentators, however, expressed concern because they believed that dealers, if their knowledge of a bond is incomplete, should be able to use the current legend. Another commentator supported deletion of the current legend, but opposed placing an affirmative notation regarding the presence of call features on the front of the confirmation because of the practical difficulties in obtaining call information. However, with regard to the availability of information regarding the presence of these call features, a number of commentators indicated that sufficient data regarding call features is available to support the disclosures being proposed.

The Board continues to believe that disclosure of call features is important to customers and that it is appropriate to improve existing disclosure by requiring an affirmative notation on the front of the confirmation if there are any calls in addition to the first in-whole pricing call. Dealers should have information regarding the presence of call features before they sell municipal securities to their customers and such information appears to be readily available for most municipal securities. Thus, the proposed rule change will delete the current legend that permits dealers to indicate generally in a pre-printed format that other call features may exist.

After reviewing the wide variety of comments on this aspect of the draft amendment, the Board changed the notation ''Special call features exist'' to ''Additional call features exist that may affect yield'' to better reflect the potential types of calls that might exist. The Board believes that this statement will best reflect the potential types of calls that might exist. Additionally, the Board added the second half of the existing legend ''complete information will be provided upon request'' to the notation to ensure that customers recognize that they can request additional information regarding call features.

Revenue bonds. Five commentators opposed the provision of the draft amendment to require that the revenue source for revenue bonds always be disclosed. In general, these commentators noted difficulties describing the revenue source for certain bonds, particularly those with complex sources of revenue or those that have a lengthy list of revenue sources or too complex a funding scheme to allow for full disclosure on a confirmation. Because of confirmation space concerns, one commentator suggested that only the most significant sources of revenue be disclosed on the confirmation. With regard to the availability of information regarding revenue sources, two commentators, however, noted that the project or company name which identifies the revenue source currently is available.

In response to commentators' concerns about the practical difficulties in listing numerous revenue sources, the proposed rule change will require dealers to put only the primary revenue source for revenue bonds on the confirmation (*e.g.*, project name). The Board believes that this information is available and would be helpful to customers.

Limited tax. Several commentators commented on the proposal to delete the ''limited tax'' designation. One supported the deletion of the limited tax designation because it believed that investors should refer to the official statement as a source of such information. However, other commentators questioned whether deletion of this provision would further the Board's objective of improving disclosure to customers. Two such commentators recognized that the meaning of ''limited tax'' is ambiguous in today's markets, but nevertheless suggested the ''limited tax'' should be retained because they believed the ''limited tax'' designation is useful information.

The proposed rule change will delete the ''limited tax'' designation because the Board believes that its meaning has become so ambiguous and so subject to differing views as to its applicability that is of doubtful use to investors. The Board notes, however, that deletion of this provision does not affect a dealer's obligation to disclose all material facts to the customer at the time of the transaction. If a general obligation bond has a limitation on taxes that is material to the investment decision, dealers must

[8] The Board also requested comment on broader issues associated with disclosure to customers and the role of the customer confirmation in providing such disclosure. The Board is not, however, proposing rulemaking in these areas at the present time.

[9] After reviewing comments received, the Board decided not to include in the proposed rule change certain provisions that were included in the draft rule. For example, the Board decided to retain disclosure on the confirmation if municipal securities are available only in book-entry form. The Board also determined not to require that the dated date always be included on the confirmation or that the confirmation indicate if a municipal security was issued without a legal opinion.

ensure that their customers are aware of the relevant facts, at or before the time of the transaction.

Dealers acting as agent and receiving ''other remuneration''. Four commentators commented on the proposal to clarify when it would be sufficient for a dealer to indicate that it received ''other remuneration'' in a transaction and that details will be furnished to the customer upon written request. In general, commentators supported the proposal, but some commentators suggested that the Board provide clarification regarding this provision.

The proposed rule change will clarify when it is appropriate to disclose ''other remuneration'' on the confirmation by providing that in an agency transaction if a dealer acquires a bond from another dealer at discount and the customer pays the ''net'' price, the inter-dealer discount cannot be considered ''other remuneration'' but rather should be considered remuneration received from the customer and disclosed pursuant to proposed rule G–15(a)(i)(A)(6)(f). The Board believes that the clarification included in the proposed rule change should ensure that dealers only disclose ''other remuneration'' in those situations where such a designation is appropriate.

''Ex legal'' delivery designation. Two commentators supported the proposed deletion of the current requirement that the confirmation indicate if a bond certificate is physically delivered without a legal opinion attached. Another commentator recognized that, with the movement away from the delivery of certificates, this provision is seldom noted on a confirmation. Nevertheless, this commentator believed this provision should be retained.

The Board believes that, with the general movement away from the physical delivery of certificates, it is no longer appropriate for the confirmation rule to focus on the physical delivery of a legal opinion. Since the concept of ''ex legal'' has no applicability except in cases involving physical delivery of certificates, the Board believe that, as part of the update of the customer confirmation rule, this provision should be deleted. Of course, even with the deletion of this requirement, given facts and circumstances of a specific transaction, if it was material that a municipal security was delivered without a legal opinion, this fact would have to be disclosed to the customer at or before the execution of the transaction as part of a dealer's duties under rule G–17.

Zero coupon bonds. Numerous commentators commented on the proposed disclosure requirements for zero coupon bonds. One commentator supported the proposed rule change to require disclosure of any premium over accreted value even though it would require additional programming for dealers. Several other commentators, however, opposed the disclosure of any premium over accreted value for transactions in zero coupon bonds. Two commentators believed it would be difficult to obtain this information and another commentator noted that some reprogramming would be required to include this information on the confirmation. One commentator suggested that the Board may wish to consider requiring that the rate of accretion for a zero coupon bond be disclosed on the confirmation because this would be more important to investors than being informed of any premium they paid over accreted value.

The Board originally proposed that the premium over accreted value be disclosed for all zero coupon bonds, but the amendment only requires that this premium be disclosed for zero coupon bonds that are callable. As discussed above, the accreted value of zero coupon bonds reflects the increase in the security's value as it approaches the redemption date, and if the bond is called prior to maturity it generally would be called at a price reflecting that value. The Board believes that requiring dealers to disclose any premium over the accreted value for callable zero coupon bonds is necessary so that customers are provided with sufficient information to assess the transaction. The Board believes that although informing customers of the rate of accretion could be helpful if supplemented with appropriate time of trade disclosure regarding the current accreted value of the bonds, the most appropriate mechanism to ensure that customers understand these possible risks associated with callable zero coupon bonds is to require the bond's accreted value on the confirmation.

Another commentator suggested that the Board consider a different approach because it believed that a discount or premium to the accreted value of a bond is equally important for any callable original issue discount bond (''OID''). This commentator suggested the following statement on confirmations relating to transactions in original issue discount bonds which are callable in part at an accreted value: ''If a premium was paid, a lower yield may result from early call.'' Although the Board does not believe this legend is appropriate for OID municipal securities, the Board does believe that additional information is necessary for such securities, and, as discussed above, the proposed rule change will require that the initial public offering price be disclosed for OID issues.

Additional obligors. Five commentators commented on the provision to require that dealers always be required to disclose information regarding additional obligors. In general, these commentators opposed requiring dealers to provide complete information regarding obligors. One commentator believed that the existence of obligors should be disclosed on the confirmation, but customers should rely on credit ratings to judge the risk factors represented by such obligors because they believe it could be difficult to obtain such information. This commentator also suggested that banks or other providers of letters of credit should be disclosed on the confirmation. Another commentator suggested the official statement should be used as a source if an investor has questions regarding obligors.

The Board believes that it is always important for customers to understand if there are any obligors in addition to the issuer and the Board believes this information should always be placed on the confirmation rather than making customers review official statements. The Board, however, recognizes that it could be difficult in certain instances for dealers to include on the confirmation complete information regarding obligors, if there are numerous obligors. The proposed rule change accordingly will permit dealers in such instances to note ''multiple obligors'' on the confirmation.

Multi-transaction data should not be aggregated on one confirmation. In general, commentators supported this clarification as the believed it will be beneficial for customers to have a separate confirmation for each transaction if they acquire several municipal securities. One commentator, however, suggested that, if a customer executes multiple transactions, the dealer should be able to send a single document that would provide all required information, except that certain information such as purchase/sale and settlement data would not have to be listed for each transaction. The Board does not believe that it is too burdensome for dealers to ensure that the confirmation data for each transaction is complete. Accordingly, the proposed rule change will require a separate confirmation for each transaction.

New sections to clarify confirmation format. The draft amendment as published proposed that all confirmation requirements, except the

zero coupon legend, be clearly and specifically noted on the front of the confirmation. Several commentators supported this format because they believed that disclosing more provisions on the front of the confirmation rather than pre-printed on the back, would be beneficial to customers.

One commentator, however, suggested that dealers be permitted to continue to put two notations on the back of the confirmation. First, for agency transactions, rule G–15(a)(ii)(A) currently provides that the dealer shall indicate on the confirmation either the name of the person from whom the securities were purchased or to whom the securities were sold for the customer or a statement that this information will be furnished upon written request of the customer. Second, rule G–15(a)(i)(G) currently provides that a dealer shall indicate on the confirmation the time of execution or a statement that the time of execution will be furnished upon written request of the customer. The amendment incorporates these suggestions because, in view of concerns regarding confirmation crowding, the Board does not believe these statements are so crucial to a typical customer that it is necessary to include these statements on the front of the confirmation. In addition, consistent with the SEC's amendment to Rule 10b–10, the amendment will not require that the statement regarding factors affecting the yield for municipal CMOs be placed on the front of the confirmation.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the **Federal Register** or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

The Board requests that the Commission delay effectiveness of the proposed rule change until 120 days after approval by the Commission is published in the **Federal Register** to ensure that firms' confirmation practices are in compliance.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the MSRB. All submissions should refer to File No. SR–MSRB–95–4 and should be submitted by June 8, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority, 17 CFR 200.30–3(a)(12).

Margaret H. McFarland,

Deputy Secretary.

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Self-Regulatory Organizations; Notice of Filing of Application for Registration as a National Securities Exchange by the United States Stock Exchange, Inc., and Amendment No. 1 Thereto

May 11, 1995.

Pursuant to Section 19(a) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(a), notice is hereby given that on March 28, 1995, the United States Stock Exchange, Inc. (''USSE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') an application for registration as a national securities exchange. On April 25, 1995, the USSE filed Amendment No. 1 to the Application for Registration.[1] The Commission is publishing this notice to solicit comments on the application from interested persons.

The USSE initially intends to trade the most active issues that meet the proposed Exchange's listing requirements and are now eligible for trading on national securities exchanges, as well as those companies that choose to list on the Exchange. The proposed Exchange would operate through an electronic securities communication and execution facility (the ''System''). Because there would be no physical trading floor, members of the Exchange (''Members'') would enter orders through System terminals, *i.e.*, computer interfaces that have communications capability with the System and are directly linked to the System. The proposed System would combine the display of limit orders and current quotation/last sale information with a matching and execution facility for like-priced orders. Additionally, the System would enable Dealers (*i.e.*, members who meet certain financial and market-making obligations) to perform brokerage and market-making functions on the Exchange, while allowing the Dealers to retain and execute their internal order flow by preferencing the public agency orders for which they act as agent.

The USSE would have Type A Members that are broker-dealers in securities, and one Type B Members that would be the Chicago Stock Exchange, Inc. The Board of Directors would be composed of eight directors elected by the Type A Members (the ''Class A Directors'') and two directors elected by the Type B Members (the ''Class B Directors''). Four of the eight directors elected by the Type A Members would be public directors (''Class A Public Directors''), and four would be representatives of Type A member firms.

You are invited to submit written data, views and arguments concerning the application by June 19, 1995. Such written data, views and arguments will be considered by the Commission in granting registration or instituting proceedings to determine whether registration should be denied. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549. Reference should be made to File No. 10–101.

The USSE's submission explains the operation of the proposed Exchange and its membership structure in more detail. Copies of the submission, all subsequent amendments, all written statements with respect to the application that are filed with the Commission, and all written communications relating to the application between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection at the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549.

[1] *See* letter from David Rusoff, Foley & Lardner, to Sharon Lawson, SEC, dated April 19, 1995.