

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 8179]
September 14, 1977]

**AMENDMENT TO REGULATION H
Filing Requirements For Municipal Securities Dealers**

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has amended, effective October 31, 1977, its Regulation H—Membership of State Banking Institutions in the Federal Reserve System—to require State member banks, and their subsidiaries, departments, and divisions, that are municipal securities dealers to file with the Board of Governors information about persons who are associated with those dealers as municipal securities principals or municipal securities representatives. In addition, the Board has determined *not* to adopt a proposed amendment to Regulation Y—Bank Holding Companies—that would have established the same filing requirements for municipal securities principals and representatives associated with bank holding companies; the proposal was included in our Circular No. 8089, dated April 11, 1977.

Form MSD-4, "Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," and Form MSD-5 "Uniform Termination Notice for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," for use in complying with the amendment to Regulation H, together with related instructions, may be obtained from this Bank after September 20, upon request directed to our Regulations Division (Tel. No. 212-791-5914).

In submitting the amendment for publication in the *Federal Register*, the Board of Governors issued the following explanatory notice:

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: This rule requires State member banks, and their subsidiaries, departments, and divisions, that are municipal securities dealers to file with the Board information about persons who are associated with them as municipal securities principals or municipal securities representatives. The Board believes that these requirements will facilitate compliance by those dealers with Municipal Securities Rulemaking Board rules concerning the qualification of municipal securities principals and municipal securities representatives.

EFFECTIVE DATE: October 31, 1977.

FOR FURTHER INFORMATION CONTACT: Robert S. Plotkin, Assistant Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2782).

SUPPLEMENTARY INFORMATION: On March 30, 1977, the Board issued for comment in the *Federal Register* (42 FR 16821) proposed amendments to its Regulation H (12 CFR 208) and Regulation Y (12 CFR 225) to require State member banks and bank holding companies, and certain of their subsidiaries, departments, and divisions, that are municipal securities dealers for which the Board is the appropriate regulatory agency under section 3(a)(34) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(34)) to file with the Board information about persons who are associated with them as municipal securities principals or municipal securities representatives. In conjunction with

that proposal, the Board also proposed Form MSD-4, "Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," and Form MSD-5, "Uniform Termination Notice for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," for use in complying with the proposed amendments to Regulations H and Y.

Concurrent with the Board's proposal of amendments to Regulations H and Y, the Federal Deposit Insurance Corporation and the Comptroller of the Currency proposed similar regulations requiring the filing of proposed Forms MSD-4 and MSD-5. Proposed Form MSD-4 and proposed Form MSD-5 were drafted jointly by the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency for use by municipal securities dealers subject to their regulation. After considering the comments submitted on the proposed amendments to Regulations H and Y and proposed Forms MSD-4 and MSD-5 and working with the Federal Deposit Insurance Corporation and the Comptroller of the Currency in drafting final Forms MSD-4 and MSD-5, the Board has adopted the amendment to Regulation H and forms substantially as proposed, but has determined not to adopt the proposed amendment to Regulation Y at this time.

The proposed amendment to Regulation Y would have established a record system for municipal securities principals and representatives associated with bank holding companies. The activities of bank holding companies are generally limited by the Bank Holding Company Act to those the Board determines to be "so closely related to banking or managing or controlling banks

(OVER)

as to be a proper incident thereto." The Board has not made such a determination concerning municipal securities dealer activities and accordingly, as a general matter, bank holding companies are not permitted to engage in such activities at this time. On October 19, 1976, the Board suspended for a period of time not to exceed twelve months a proposed regulation that would permit bank holding companies generally to engage in certain municipal securities activities. In the event the Board upon further consideration determines that municipal securities dealer activities should be permissible for bank holding companies, the Board may also at that time adopt the proposed amendment to Regulation Y with modifications similar to those the Board has made in the amendment to Regulation H.

As a result of the comments received, the following changes have been made in the amendment and forms:

1. The period during which municipal securities dealers must retain copies of forms or statements that they are required to file with the Board under the amendment to Regulation H is specified as until at least three years after the termination of the employment or other association with the dealer of the municipal securities principal or municipal securities representative to whom the form or statement relates. That retention requirement is parallel to the one imposed on municipal securities dealers under paragraph (c) of Municipal Securities Rulemaking Board Rule G-7.
2. The instructions to Forms MSD-4 and MSD-5 have been revised to require that only the original of Forms MSD-4 and MSD-5 be manually signed.
3. For purposes of Forms MSD-4 and MSD-5 and the instructions thereto, the term *bank municipal securities dealer* has been defined as a municipal securities dealer which is a bank or a subsidiary or a department or division of a bank.
4. Item 8 of proposed Form MSD-4 (Item 6 of final Form MSD-4) has been changed to indicate that qualification as both a municipal securities principal and municipal securities representative can be requested on a single Form MSD-4.
5. Item 9 of proposed Form MSD-4 (Item 7 of final Form MSD-4), which describes the functions to be performed by a municipal securities

principal or municipal securities representative, has been expanded to reflect a change in Municipal Securities Rulemaking Board rules effected after Form MSD-4 was proposed for comment.

6. The "permitted to resign" and "voluntary" reasons for termination contained in Item 8 of proposed Form MSD-5 (Item 7 of final Form MSD-5) have been combined into a single "resigned" category. Further, municipal securities dealers are required to furnish full details about the reason for termination only if the termination is related to a violation or probable violation of securities or banking law.
7. Editorial changes have been made in Forms MSD-4 and MSD-5 and the instructions thereto for clarification purposes.

The Board considered but decided not to adopt a suggestion that Form MSD-4s, Form MSD-5s, and statements received pursuant to paragraph (c) of Municipal Securities Rulemaking Board Rule G-7 be considered filed with the Board when mailed. Upon receipt of a Form MSD-4 or Form MSD-5, the Board will remit to the sender the acknowledgment found at the bottom of the form.

The Board also noted the concern expressed in several comments about the effect of Item 10 of proposed Form MSD-4 (Item 8 of final Form MSD-4) on the privacy of individuals. In completing Item 10 municipal securities dealers are required to confirm that they have made the inquiry of former employers of a municipal securities principal or municipal securities representative required under paragraph (d) of Municipal Securities Rulemaking Board Rule G-7. Since Item 10 reflects a Municipal Securities Rulemaking Board requirement, the Board decided not to alter Item 10 other than to renumber it as Item 8.

The Board prescribed Form MSD-4 for purposes of paragraph (b) of Municipal Securities Rulemaking Board Rule G-7 which becomes effective on October 15, 1977. Printed copies of Forms MSD-4 and MSD-5 will be available from the Federal Reserve Banks and the Board of Governors of the Federal Reserve System on and after September 20, 1977. The amendment to Regulation H will become effective on October 31, 1977. In the proposed amendment to Regulation H the paragraph to be added was designated 12 CFR 208.8(h). As adopted, that paragraph has been redesignated 12 CFR 208.8(j).

System of Records

The Board of Governors has adopted a new System of Records, entitled "Municipal Securities Principal and Municipal Securities Representative Records," as required by the Privacy Act of 1974, affecting persons who are or seek to be municipal securities principals or representatives. The text of the proposed System of Records was contained in our Circular No. 8089. On August 8, 1977, the Board adopted the System with only minor changes; the final text of the new System was published in the *Federal Register* of August 24, 1977.

Rules Regarding Delegation of Authority

The Board of Governors has also adopted an amendment to its Rules Regarding Delegation of Authority to delegate, to the Director of its Division of Banking Supervision and Regulation, certain of its functions in connection with the administration of Municipal Securities Rulemaking Board rules. This amendment will be incorporated into a pending revision of the Board's Rules Regarding Delegation of Authority pamphlet, which will be sent to you as soon as it is available.

* * *

Enclosed is a copy of the amendment to Regulation H. Questions thereon may be directed to our Regulations Division (Tel. No. 212-791-5914).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System
MEMBERSHIP OF STATE BANKING INSTITUTIONS
IN THE FEDERAL RESERVE SYSTEM
AMENDMENT TO REGULATION H

Effective October 31, 1977, §208.8 is amended by adding a new paragraph (j) thereto, to read as follows:

SECTION 208.8—BANKING PRACTICES

* * *

(g) [*Reserved*]

(h) [*Reserved*]

(i) [*Reserved*]

(j) **State member banks, and subsidiaries, departments, and divisions thereof, which are municipal securities dealers.**

(1) For purposes of this paragraph, the terms herein have the meanings given them in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78c(a)) and the rules of the Municipal Securities Rulemaking Board. The term *Act* shall mean the Securities Exchange Act of 1934 (15 U.S.C. §78a et seq.).

(2) On and after October 31, 1977, a State member bank of the Federal Reserve System, or a subsidiary or a department or a division thereof, that is a municipal securities dealer shall not permit a person to be associated with it as a municipal securities principal or municipal securities representative unless it has filed with the Board an original and two copies of Form MSD-4, "Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," completed in accordance with the instructions contained therein, for that person. Form MSD-4 is prescribed by the Board for purposes of paragraph (b) of Municipal Securities Rulemaking Board Rule G-7, "Information Concerning Associated Persons."

(3) Whenever a municipal securities dealer receives a statement pursuant to paragraph (c) of Municipal Securities Rulemaking Board Rule G-7, "Information Concerning Associated Persons," from a person for whom it has filed a Form MSD-4 with the Board pursuant to subparagraph (2) of this paragraph, such dealer shall, within ten days thereafter, file three copies of that statement with the Board accompanied by an original and two copies of a transmittal letter which includes the name of the dealer and

a reference to the material transmitted identifying the person involved and is signed by a municipal securities principal associated with the dealer.

(4) Within thirty days after the termination of the association of a municipal securities principal or municipal securities representative with a municipal securities dealer that has filed a Form MSD-4 with the Board for that person pursuant to subparagraph (2) of this paragraph, such dealer shall file an original and two copies of a notification of termination with the Board on Form MSD-5, "Uniform Termination Notice for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer," completed in accordance with instructions contained therein.

(5) A municipal securities dealer that files a Form MSD-4, Form MSD-5, or statement with the Board under this paragraph shall retain a copy of each such Form MSD-4, Form MSD-5, or statement until at least three years after the termination of the employment or other association with such dealer of the municipal securities principal or municipal securities representative to whom the form or statement relates.

(6) The date that the Board receives a Form MSD-4, Form MSD-5, or statement filed with the Board under this paragraph shall be the date of filing. Such a Form MSD-4, Form MSD-5, or statement which is not prepared and executed in accordance with the applicable requirements may be returned as unacceptable for filing. Acceptance for filing shall not constitute any finding that a Form MSD-4, Form MSD-5, or statement has been completed in accordance with the applicable requirements or that any information reported therein is true, current, complete, or not misleading. Every Form MSD-4, Form MSD-5, or statement filed with the Board under this paragraph shall constitute a filing with the Securities and Exchange Commission for purposes of section 17(c)(1) of the Act (15 U.S.C. §78q(c)(1)) and a "report," "application," or "document" within the meaning of section 32(a) of the Act (15 U.S.C. §78ff(a)). (15 U.S.C. §§78o-4(c)(5), 78q, and 78w and 12 U.S.C. 248(a).)

For this Regulation to be complete, retain:

- 1) Regulation H pamphlet, as amended effective March 18, 1969.
- 2) Amendments effective December 21, 1973; March 2, 1974; September 16, 1974; September 22, 1974; December 1, 1975; February 26, 1976; and April 13, 1977.
- 3) This slip sheet.