

MEMO# 15686

February 24, 2003

MSRB PROPOSAL TO GRANT MSRB AUTHORITY TO "CLOSE" THE MUNICIPAL SECURITIES MARKET DURING MARKET EMERGENCIES

[15686] February 24, 2003 TO: FIXED-INCOME ADVISORY COMMITTEE No. 2-03 RE: MSRB PROPOSAL TO GRANT MSRB AUTHORITY TO "CLOSE" THE MUNICIPAL SECURITIES MARKET DURING MARKET EMERGENCIES The Municipal Securities Rulemaking Board has filed a notice with the Securities and Exchange Commission regarding a proposal that would authorize the MSRB, in coordination with the Commission, to "close" the municipal securities market in the event of a catastrophic failure of a system or systems critical to the operation of the market.¹ As discussed below, the proposal consists of an amendment to Rule A-4 (Meetings of the Board) and an interpretation of Rule G-17 (Conduct of Municipal Securities Activities). Comments on the MSRB's proposal are due to the Commission by Friday, March 14, 2003. We have scheduled a conference call for Wednesday, February 26, 2003 at 3:00 p.m., Eastern Time, to discuss relevant issues raised by the MSRB's proposal. Please let me know if you are able to participate on the call. If you are unable to participate on the call, but would like to provide comment for inclusion in a possible comment letter, please submit them to Barry Simmons at (202) 326-5923 (phone), (202) 326-5827 (fax), or bsimmons@ici.org (email), by Wednesday, February 26th. Amendments to Rule A-4 – The MSRB's proposed amendments to Rule A-4 would institute specific procedures governing special meetings of the MSRB's Board to act on market emergencies. Such procedures, among other things, would: (1) require the sending of a notice to all Board members of a special conference call meeting on a market emergency; (2) require such notice to describe the proposed Board action; (2) require the Executive Director, or his or her designee, to consult with the Commission on the emergency prior to the meeting, if possible; (3) designate five Board members (instead of ten) as a quorum for this purpose, while suspending the requirement that a member be present from each of the three statutory categories (i.e., securities firm, bank dealer, public member); and (4) limit any such action, voted by a majority of the Board members in attendance, to declaring (or ending a declared) market emergency. ¹ MSRB Notice 2003-4 (February 7, 2003. The MSRB's proposal is available from the MSRB's website at <http://ww1.msrb.org/msrb1/whatsnew/MarketEmergencyStatement.htm>. ² Interpretation of Rule G-17 – The MSRB's proposed interpretation of Rule G-17 would: (1) deem it a violation of Rule G-17 for a broker, dealer or municipal securities dealer (collectively, "dealers") to effect transactions in municipal securities during an MSRB-declared "market emergency"; (2) define a "market emergency" for this purpose; (3) instruct dealers to rely upon official MSRB announcements in determining whether a market emergency exists; (4) require the

MSRB to communicate official announcements on market emergencies to dealers via website postings, news outlets, and email; and (5) describe in such announcements the nature of the market emergency and affected systems, the nature and scope of transactions affected, and the status of the market emergency and its expected duration, if known. Barry E. Simmons Associate Counsel

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