

**MEMO# 5694**

March 18, 1994

# **SEC INTERPRETIVE RELEASE AND PROPOSED AMENDMENTS CONCERNING DISCLOSURE IN THE MUNICIPAL SECURITIES MARKET**

March 18, 1994 TO: SEC RULES COMMITTEE NO. 34-94 UNIT INVESTMENT TRUST  
COMMITTEE NO. 21-94 SECONDARY MARKET DISCLOSURE TASK FORCE RE: SEC  
INTERPRETIVE RELEASE AND PROPOSED AMENDMENTS CONCERNING DISCLOSURE IN THE  
MUNICIPAL SECURITIES MARKET

The Securities and Exchange Commission has issued an interpretive release and proposed amendments to Rule 15c2-12 under the Securities Exchange Act of 1934 designed to improve disclosure practices in the municipal securities market, particularly in the secondary market. The interpretive release and proposed rule amendments are briefly summarized below, and copies are attached. Interpretive Release The interpretive release focuses on the duties of participants in the municipal securities markets under the antifraud provisions of the securities laws. With respect to primary offering disclosure, the release identifies certain areas where disclosure needs to be improved, including conflicts of interest and other relationships or practices, the terms and risks of securities and certain financial information. In view of the importance to an investor of receiving information on a continuing basis, the release concludes that the official statement should state clearly whether ongoing disclosure concerning the issuer or obligor will be provided. The release also clarifies the obligations of issuers to ensure timely delivery of preliminary official statements to underwriters and potential investors. The release renews the SEC's legislative recommendation to amend the federal securities laws to remove the registration exemption for the corporate credit underlying municipal conduit securities involving private activity financings. In addressing the need to improve disclosure in the secondary market, the release includes several basic mechanisms for issuers to follow for providing ongoing disclosures to investors, including the publication of financial information, timely reporting of material events and submission of such information to an information repository. Underwriters and municipal dealers are advised of their duty to review the issuer's disclosure documents. The release states that an underwriter must have a "reasonable basis for its belief as to the accuracy and completeness of the representations in the documents," and a municipal dealer must have a "reasonable basis for recommending the purchase of securities." The SEC has requested comment regarding the disclosure items discussed in the release and what, if any, additional action should be taken with respect to disclosure in the municipal securities market by the SEC, the Municipal Securities Rulemaking Board or Congress. Proposed Amendments to Rule 15c2-12 The SEC has proposed amendments to Rule 15c2-12 under the Exchange Act, which requires

underwriters of primary offerings of municipal securities with an aggregate principal amount of one million dollars or more to obtain and distribute to their customers the issuers' official statements for the offerings. Specifically, the proposed amendments would prohibit a broker, dealer, or municipal securities dealer ("Participating Underwriter") from underwriting municipal securities, unless it has reasonably determined that the issuer or its designated agent has undertaken to provide certain information (such as annual financial information and notices of material events) to a nationally recognized municipal securities information repository. In addition, the amendments would prohibit a Participating Underwriter from recommending the purchase or sale of a municipal security without having reviewed the information the issuer has undertaken to provide. \* \* \* Comments are due to the SEC on the interpretive release and proposed rule amendments 120 days after they are published in the Federal Register. If you have any comments that you would like the Institute to consider including in a letter on these items, please provide them to me by May 6, 1994. My direct number is 202/326-5824 and the fax number is 202/3236-5828.  
Amy B.R. Lancellotta Associate Counsel Attachments

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