

MEMORANDUM OF MEETING

January 12, 1979

File No. S7-654

On Wednesday, January 10, 1979, three representatives of the Municipal Securities Rulemaking Board ("MSRB") - - Bob Brown, Alan Weeden and Jack Urie - - met for approximately 35 minutes with Commissioners Philip A. Loomis, Jr. and John R. Evans and their legal assistants, Beverly Rubman and Michael Rogan, to comment on the Commission's proposal to require municipal securities dealers to disclose on customer confirmations their remuneration in riskless principal transactions. (See Securities Act Release No. 15220 (October 6, 1978)).

Messrs. Brown, Weeden and Urie made the following comments in opposition to the rule proposal insofar as it applied to the municipal securities industry:

1. The municipal securities industry has been inundated with new regulations in the past few months. While members are accepting these changes, their willingness to cooperate may be lost if this requirement is imposed because they consider it to be unfair.
2. The equity markets have long been accustomed to disclosure of broker-dealer services charges through commissions paid on agency trades. This is not the case for the municipal securities market which is both a dealer market and, in non-underwriting trading (which is all the proposed rule will cover), overwhelmingly an institutional market; because of these two unique characteristics, the municipal securities industry will be drastically affected by this new requirement. There is now a delicate power balance between institutions and the street which will be upset if the institutions are able to find out what the dealer's mark-up is. This is unfair because the industry is fully competitive now. Furthermore, the institutions do not need additional disclosure.
3. Enforcement of the requirement will be very difficult because of the intricacies of trading municipal securities.
4. The MSRB is a new organization. It is doing a good job and its credibility will be adversely affected if one of its major decisions is overruled by the Commission.
5. The small regional municipal securities dealers who are essential to bringing small rural municipal bond offerings to market will be placed at a competitive disadvantage vis a vis larger firms which can maintain securities in inventory. Because the latter category of firms will not be required to disclose

their mark-up, it will appear that they are offering a better deal. If unsophisticated customers then buy from those larger firms, rather than the small firms which can not afford to carry an inventory, the small firms will lose an important segment of their business. These firms are dependent on this revenue because small underwritings alone are not sufficient to support them. Should they go out of business it might well have an adverse impact on the ability of small municipal issuers to raise capital.

6. The problem which the Commission is trying to address - - that of the unscrupulous dealer who overcharges his customers - - can be dealt with adequately under MSRB's Rules G-17 and G-30. These rules should be given a fair chance to succeed before the MSRB's decision not to require disclosure of mark-ups is overruled.

Commissioners Loomis and Evans thanked Messrs. Brown, Weeden and Urie for coming to discuss their concerns with them. They indicated that their input was very helpful and that their views would be weighed as the Commission made its decision.

Prepared By: Michael Rogan