

Muni Bond Newsletter

SEC Approves the MSRB's Cornerstone MA Rule

**March
2016**

In this issue:

SEC Approves the MSRB's Cornerstone MA Rule 1

Bond Interest Rate Update 2,3

Speer Financial Client Bond Sales 4

NAMA Works Hard to Have a Seat at the Table 4

On December 23, 2015 the Securities Exchange Commission (SEC) approved the Municipal Securities Rulemaking Board's (MSRB) Rule G-42, on the duties of non-solicitor municipal advisors (MAs). Rule G-42 establishes the core standards of conduct for MAs .

The approval of Rule G-42 represents a significant milestone for the MSRB in its duty of creating a comprehensive regulatory regime for MAs, as charged by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Rule G-42 creates certain standards of conduct relating to the fiduciary duty owed by the MA to its municipal entity clients. These standards of conduct include the Duty of Care and the Duty of Loyalty. Each is briefly summarized below:

Duty of Care

- ◆ Deal honestly and in good faith with your municipal client and act in the client's best interest without regard to the financial or other interests of the MA firm or MA representative advisors.
- ◆ Disclose any conflicts of interest at the onset of an engagement or that arise during an engagement.
- ◆ Disclose any material disciplinary or legal actions to a client.
- ◆ Abstain from any prohibited conduct.
- ◆ Do not charge excessive compensation.

Duty of Loyalty

- ◆ Act competently and possess the necessary qualifications.
- ◆ MAs must not undertake an engagement for which they do not have the degree of knowledge and/or expertise to provide the client with informed advice.
- ◆ MAs must determine if a transaction is suitable for a client.
- ◆ "Suitability" should take into account the following factors:
 - ◇ Risk tolerance.
 - ◇ Financial circumstances.
 - ◇ Objectives.
 - ◇ Tax status.
 - ◇ Any other material information discovered after a reasonable inquiry (Duty of Inquiry).
- ◆ The suitability determination requires the MA to "know your client".
- ◆ The MA must undertake a reasonable investigation to determine that any recommendation is not based on materially inaccurate or incomplete information.
- ◆ Have a Reasonable Basis for the following:
 - ◇ Advice.
 - ◇ Representations made in certificates.
 - ◇ Any information provided to the client or other parties when preparing the official statement or other disclosure document.

Rule G-42 will become effective on June 23, 2016. For the full text of the rule or a more complete summary of the rule, please visit www.msrb.org.