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Stakeholders
Municipal Advisors

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Professional
Qualification

Affected Rules
[Rule G-3](#)

SEC Approves Amendments to MSRB Rule G-3 to Establish a Municipal Advisor Principal Qualification Examination

Overview

The Municipal Securities Rulemaking Board (MSRB) recently received approval from the Securities and Exchange Commission (SEC) to amend MSRB Rule G-3, on professional qualification requirements, to require municipal advisor principals – those who engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons – to pass the new Municipal Advisor Principal Qualification Examination (“Series 54 examination”) to become appropriately qualified as a municipal advisor principal.¹

As discussed below, the amendments to Rule G-3 also (i) require individuals who cease to be associated with a municipal advisor for two or more years, at any time after having been qualified as a municipal advisor principal, to requalify by examination unless a waiver is granted; (ii) add the Series 54 examination to the list of qualification examinations for which an individual can seek a waiver; and (iii) provide that municipal advisor representatives may function as a principal for 120 calendar days without being qualified with the Series 54 examination.

The rule changes will become effective on December 20, 2018.

Questions about this notice may be directed to Bri Joiner, Manager, Professional Qualifications, at 202-838-1500.



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¹ See Exchange Act Release No. 84630 (November 20, 2018), 83 FR 60927 (November 27, 2018) (File No. SR-MSRB-2018-07).

Background

Section 15B(b)(2)(A) of the Securities Exchange Act of 1934 authorizes the MSRB to prescribe standards of training, experience, competence and such other qualifications the MSRB finds necessary or appropriate in the public interest or for the protection of investors and municipal entities and obligated persons.² With the Municipal Advisor Representative Qualification Examination (“Series 50 examination”) in place since September 2016 as the baseline representative-level qualification examination, the MSRB has been engaged in an ongoing effort to develop a principal-level qualification examination. The adoption of professional qualification standards for municipal advisor principals is an important step in the MSRB’s ongoing efforts to carry out its mandate under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).³ Additionally, the establishment of the Series 54 examination is consistent with the intent of the establishment of the Series 50 examination “to mitigate problems associated with advice provided by those individuals without adequate training or qualifications,” in that municipal advisor principals should be appropriately qualified to supervise such activities of municipal advisor representatives.⁴

Summary of Rule Changes

Rule G-3 ensures that associated persons of a municipal advisor attain and maintain a specified level of competence pertinent to their function. The amendments to Rule G-3(e)(ii)(A) require those who meet the definition of a municipal advisor principal, as defined under Rule G-3(e)(i),⁵ to pass both the Series 50 examination and Series 54 examination prior to becoming appropriately qualified as a municipal advisor principal. Rule G-3(e)(iii), as renumbered, requires each municipal advisor to designate at least one individual as a municipal advisor principal who would be responsible for

² 15 U.S.C. 78o-4(b)(2)(A).

³ See 15 U.S.C. 78o-4(b)(2)(L)(ii) and (iii) as amended by the Dodd-Frank Act. Pub. Law No. 111-203, 124 Stat. 1376.

⁴ See Exchange Act Release No. 73708 (December 1, 2014), 79 FR 72225 (December 5, 2014) (File No. SR-MSRB-2014-08) (Notice of Filing of a Proposed Rule Change).

⁵ Under Rule G-3(e)(i) a “municipal advisor principal” is defined as “a natural person associated with a municipal advisor who is qualified as a municipal advisor representative and is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.”

supervising the municipal advisory activities of the municipal advisor and its associated persons.⁶

In addition, amendments to Rule G-3(e)(ii)(B) provide that any person qualified as a municipal advisor principal who ceases to be associated with a municipal advisor for two or more years must requalify by taking and passing both the Series 50 examination and Series 54 examination prior to becoming qualified as a municipal advisor principal unless such person is granted a waiver pursuant to Rule G-3(h)(ii), on waiver of qualification requirements.⁷ Corresponding amendments to Rule G-3(h)(ii) and Supplementary Material .02 set forth that the MSRB will consider waiving the qualification requirement of municipal advisor principals in extraordinary cases where an applicant was previously qualified as a municipal advisor principal by passing both the Series 50 examination and Series 54 examination and such person's qualification lapsed thereafter. Moreover, amendments to Rule G-3(e)(ii)(C) allow a municipal advisor representative to function in the capacity of a municipal advisor principal without having passed the Series 54 examination so long as the Series 54 examination is taken and passed within 120 calendar days after such person begins functioning as a municipal advisor principal.

The amendments also include a technical amendment to Rule G-3(e)(i), on definitions, to clarify that qualification as a municipal advisor representative is a prerequisite to obtaining qualification as a municipal advisor principal.

Grandfathering

Consistent with the requirement that all municipal advisor representatives and municipal advisor principals pass the Series 50 examination, the MSRB is requiring any person who meets the definition of a municipal advisor principal, as defined under Rule G-3(e), to pass the Series 54 examination regardless of whether any person has passed other MSRB or MSRB-recognized examinations (such as the Series 53 or Series 24) or maintains another professional designation.⁸ More specifically, the MSRB is not waiving the principal-level requirement or grandfathering individuals who have

⁶ Rule G-44 sets forth the obligation of municipal advisor principals to supervise the municipal advisory activities of the municipal advisor and its associated persons to ensure compliance with applicable securities laws and regulations, including applicable Board rules.

⁷ The Board will review waiver requests on their individual merits, taking into consideration relevant facts presented by an applicant.

⁸ For example, the Chartered Financial Analyst or Certified Financial Planner. This aligns with the MSRB's stated position regarding grandfathering and waivers for the municipal advisor representative qualification. See Exchange Act Release No. 73708, *supra* note 4.

passed such other examinations or who have experience in functioning in a supervisory capacity. The MSRB believes that, as consistent with the professional qualification standards for the municipal advisor representative-level examination, each municipal advisor principal should demonstrate a specified level of competency in the regulatory requirements and application thereof to the firm's municipal advisory activities.

Pilot Series 54 Examination and Content Outline Development

The MSRB will conduct a pilot for the Series 54 examination from February 2019 through June 2019. In the coming weeks, in preparation for the launch of the pilot examination, the MSRB plans to file a content outline for the Series 54 examination with the SEC that describes: the topics on the examination; the percentage of the examination devoted to each topic area; and the number of questions that will appear on the examination. The content outline will also contain sample examination questions to familiarize individuals with the format of the examination.

The results of the pilot examination will be used to establish the passing score for the permanent Series 54 examination. In the fall of 2019, after the pilot period concludes and the passing score is determined, the MSRB will announce in an MSRB Notice the date the permanent Series 54 examination will become available and the score required to pass the Series 54 examination. In addition, consistent with the implementation process for the Series 50 examination, once the permanent Series 54 examination becomes available, persons who engage in the management, direction or supervision of the municipal advisory activities of a municipal advisor and its associated persons will have a one-year grace period to become appropriately qualified as a municipal advisor principal. During this one-year grace period, persons qualified with the Series 50 examination would be permitted to continue to engage in municipal advisor principal activity. The one-year grace period is designed to provide sufficient time for municipal advisor principals to prepare for and pass the Series 54 examination without considerable disruption to the business of the municipal advisor. After the one-year grace period, a municipal advisor representative would only be permitted to function in the capacity of a municipal advisor principal, if the municipal advisor representative began functioning as a municipal advisor principal after the one-year grace period; in which case, the municipal advisor representative would have, as provided under Rule G-3(e)(ii)(C), a period of 120 calendar days to take and pass the Series 54 examination.

November 28, 2018

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Text of Amendments*

Rule G-3. Professional Qualification Requirements

No broker, dealer, municipal securities dealer, municipal advisor or person who is a municipal securities representative, municipal securities sales limited representative, limited representative - investment company and variable contracts products, municipal securities principal, municipal fund securities limited principal, municipal securities sales principal, municipal advisor representative or municipal advisor principal (as hereafter defined) shall be qualified for purposes of Rule G-2 unless such broker, dealer, municipal securities dealer, municipal advisor or person meets the requirements of this rule.

(a) – (d) No changes.

(e) Municipal Advisor Principal

(i) Definition. The term "municipal advisor principal" means a natural person associated with a municipal advisor who ~~is qualified as a municipal advisor representative and~~ is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.

(ii) Qualification Requirements.

(A) To become qualified as a municipal advisor principal a person must:

- (1) As a pre-requisite take and pass the Municipal Advisor Representative Qualification Examination; and
- (2) Take and pass the Municipal Advisor Principal Qualification Examination.

The passing score shall be determined by the Board.

- (B) Any person qualified as a municipal advisor principal who ceases to be associated with a municipal advisor for two or more years at any time after having qualified as a municipal advisor principal in accordance with subparagraph (e)(ii)(A) shall take and pass the Municipal Advisor Representative Qualification Examination and the Municipal Advisor Principal Qualification Examination prior to being qualified as a municipal advisor principal, unless a waiver is granted pursuant to subparagraph (h)(ii) of this rule.
- (C) For the first 120 calendar days after becoming a municipal advisor principal, the requirements of subparagraph (e)(ii)(A)(2) shall not apply to any person who is qualified as

* Underlining indicates new language; strikethrough denotes deletions.

a municipal advisor representative, provided, however, that such person shall take and pass the Municipal Advisor Principal Qualification Examination within that period.

(#) (iii) Numerical Requirements. Every municipal advisor shall have at least one municipal advisor principal.

(f) – (g) No changes.

(h) Waiver of Qualification Requirements.

(i) No change.

(ii) The requirements of paragraph (d)(ii)(A) and (e)(ii)(A) may be waived by the Board in extraordinary cases for a municipal advisor representative or municipal advisor principal.

(i) No changes.

Supplementary Material

.01 No changes.

.02 Waivers. The Board will consider waiving the requirement to become qualified as a ~~that a~~ municipal advisor representative or municipal advisor principal ~~pass the Municipal Advisor Representative Qualification Examination~~ in extraordinary cases where: (1) ~~where~~ the applicant participated in the development of the Municipal Advisor Representative Qualification Examination or the Municipal Advisor Principal Qualification Examination, as applicable, as a member of the Board's Professional Qualifications Advisory Committee; or (2) ~~where~~ the applicant was previously qualified as a municipal advisor representative by passing the Municipal Advisor Representative Qualification Examination and/or was previously qualified as a municipal advisor principal by passing the Municipal Advisor Representative Qualification Examination and the Municipal Advisor Principal Qualification Examination and such qualification lapsed pursuant to subparagraphs (d)(ii)(B) or (e)(ii)(B) of this rule.