

**Supporting Statement for the
Uniform Application for Municipal Securities Principal or Municipal Securities
Representative Associated with a Bank Municipal Securities Dealer
(FR MSD-4; OMB No. 7100-0100) and the
Uniform Termination Notice for Municipal Securities Principal or Municipal Securities
Representative Associated with a Bank Municipal Securities Dealer
(FR MSD-5; OMB No. 7100-0101)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, two mandatory municipal securities dealer reporting forms:

- the Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer (FR MSD-4; OMB No. 7100-0100)
- the Uniform Termination Notice for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer (FR MSD-5; OMB No. 7100-0101)

These mandatory information collections are submitted on occasion by state member banks (SMBs), bank holding companies (BHCs), and foreign dealer banks that are municipal securities dealers.¹ The FR MSD-4 collects information, such as personal history and professional qualifications, on an employee whom the bank wishes to assume the duties of a municipal securities principal or representative. The FR MSD-5 collects the date of, and reason for, termination of such an employee. The total annual reporting burden for these reporting forms is estimated to be 84 hours.

Background and Justification

Pursuant to the Securities Acts Amendments of 1975 (P.L. 94-29), the Congress imposed a comprehensive federal regulatory structure on the municipal securities industry. A new rulemaking body, the Municipal Securities Rulemaking Board (MSRB), was created as a self-regulatory organization (SRO) to prescribe rules for the municipal securities industry with respect to transactions in municipal securities. Rules of the MSRB take effect only after approval by the Securities and Exchange Commission (SEC). Although MSRB rules apply to all municipal securities dealers, the MSRB does not have authority to enforce its rules. For enforcement purposes the Securities Exchange Act of 1934 (15 U.S.C. §78a et seq.; the 1934 Act) designates appropriate regulatory agencies (ARAs) for specified municipal securities dealers. The Federal Reserve is the ARA for SMBs and BHCs, and certain of their subsidiaries, departments, and divisions that are municipal securities dealers. Although the 1934 Act does not specify the ARA for municipal securities dealer activities of foreign banks, uninsured state branches or state agencies of foreign banks, commercial lending companies owned or controlled

¹ At this time, there are no BHCs or foreign dealer banks that are registered as municipal securities dealers.

by a foreign bank, or Edge Act corporations (collectively referred to as foreign dealer banks), the Division of Market Regulation of the SEC has agreed that the Federal Reserve should examine the municipal securities dealer activities of foreign dealer banks.²

Staff at the federal bank regulatory agencies, in consultation with the MSRB, jointly drafted and adopted the MSD-4 and MSD-5 in 1977. The MSD-4 is the source document for initial information submitted to each agency. The MSD-5 is the source document for updating the information when an associated person's employment is terminated for any reason. Information collected on the MSD-4 and the MSD-5 may be routinely used by the ARA to: (1) refer information indicating a potential violation of law to another government agency or SRO, (2) aid in the resolution of any proceeding in which the federal securities laws or banking laws are at issue, (3) obtain additional information from a government agency or SRO concerning the applicant's qualifications, or (4) respond to a government agency or SRO request for information needed to issue a license or for similar action affecting the applicant.

The Department of the Treasury (Treasury) rules covering government securities broker and dealer activities became effective in July 1987. The specific rule that deals with associated persons of government securities brokers and dealers who are also associated persons of a municipal securities dealer allows the associated persons to fulfill the notification requirements by filing the MSD-4 (17 CFR 400.4). This was done to reduce burden by eliminating the need to file both the MSD-4 and Treasury's G-FIN-4 (Disclosure Form for Person Associated with a Financial Institution Government Securities Broker or Dealer; OMB No. 1535-0089). These two reporting forms require almost identical information. Likewise, the MSD-5 may also be used in lieu of filing both the MSD-5 and G-FIN-5 (Uniform Termination Notice for Person Associated with a Financial Institution Government Securities Broker or Dealer; OMB No. 1535-0089) to terminate an associated person.

Description of Information Collection

MSRB rule G-7, Information Concerning Associated Persons, requires persons who are or seek to be associated with municipal securities dealers as municipal securities principals (persons performing supervisory functions) or representatives (persons engaged in underwriting, trading, or sales of municipal securities or furnishing financial advice to issuers in connection with the issuance of municipal securities) to provide certain background information to the municipal securities dealers. The rule also requires municipal securities dealers to obtain and report this information. Generally, the information required to be disclosed by MSRB rule G-7 relates to employment history and professional background including any disciplinary sanctions and any claimed basis for exemption from MSRB examination requirements. MSRB rule G-7 provides that the information may be provided on the MSD-4 for a bank dealer.

The MSD-4 is the source document for initial information submitted to each regulatory agency on an employee whom the bank wishes to assume the duties of a municipal securities principal or representative. Generally, the MSD-4 collects information on employment history and professional background, including any disciplinary sanctions and any claim basis for

² Letter from Catherine McGuire, Chief Counsel, SEC's Division of Market Regulation, to Laura M. Homer, Assistant Director, Federal Reserve Board's Division of Banking Supervision and Regulation, June 14, 1994.

exemption from MSRB examination requirements. In addition, the reporting form solicits personal information that most people would include on a resume. The MSD-5 is the source document for updating the information when an associated person's employment is terminated for any reason. The MSD-5 requires much less personal information and requires disclosure of the reason for termination and whether any investigations or actions by agencies or SROs involving the associated person occurred during the period of employment. Both information collections are event-generated.

Currently, there are 11 SMBs registered as municipal securities dealers. Any SMB, BHC, or foreign dealer bank registering as a municipal securities dealer in the future will be required to file these event-generated reporting forms for its employees. Bank municipal securities dealers must retain exact copies of the MSD-4 for each associated person during the entire term of employment and both the MSD-4 and MSD-5 for three years from the date of termination of employment.

Time Schedule for Information Collection

MSRB rule G-7 requires filing the MSD-4 prior to permitting a person to be associated with a municipal securities dealer. Further, a bank is required to file the MSD-5 within 30 days after a principal or representative terminates association with the municipal securities dealer. Completed reporting forms are sent directly to the Federal Reserve Board's Division of Banking Supervision and Regulation. The information collected on the MSD-4 and MSD-5 is not published, nor is it otherwise available to the public.

Legal Status

The Board's Legal Division has determined that 12 U.S.C. § 248(a)(1) authorizes the Board to require these reports from SMBs and that 12 U.S.C. § 3105(c)(2) authorizes the Board to require these reports from foreign bank branches and agencies. Under the Freedom of Information Act, the Federal Reserve Board regards the information provided by each respondent as confidential (5 U.S.C. § 552(b)(6)).

The collection of these data has generated a system of records within the meaning of the Privacy Act (5 U.S.C. § 552a(a)(5)). The Board has formally designated the system of records as required under the Privacy Act. (42 Fed. Reg. 16,854 (1977), reprinted in 3 Federal Reserve Regulatory Service 8-350). The Board may not, therefore, disclose the information collected in these reports, except in accordance with the provisions of the Privacy Act. This system of records was amended on August 10, 1987, to include information prescribed on the G-FIN-4 and G-FIN-5. As there will be no change in the information collected in the MSD-4 and MSD-5, there is no need to amend this system of records.

Consultation Outside the Agency and Discussion of Public Comment

The Federal Reserve has consulted with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation to ensure uniformity of the reporting forms. On February 2, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 5320)

requesting public comment for 60 days on the extension, without revision, of the FR MSD4 and FR MSD5. The comment period for this notice expired on April 5, 2010. The Federal Reserve did not receive any comments. On April 16, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 19973).

Estimates of Respondent Burden

As shown in the following table, the total annual burden for both notices is estimated to be 84 hours. The Federal Reserve estimates that it takes one hour to complete the FR MSD-4 and 15 minutes to complete the FR MSD-5. The Federal Reserve used the actual number of reporting forms filed during 2009 by SMBs registered as dealers to estimate the burden. Because respondents are required to retain these reporting forms during the employee's tenure and for three years after termination of employment, the estimated total annual burden of these information collections includes both reporting and recordkeeping burden. The annual burden of this information collection represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Estimated number of responses</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR MSD-4	48	1	1 hour	48
FR MSD-5	144	1	15 minutes	<u>36</u>
<i>Total</i>				84

The current annual cost to the public of these information collections is estimated to be \$7,510.³

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System, including processing, printing, and mailing, is negligible.

³ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (20% Administrative or Junior Analyst @ \$25, 70% Senior Management @ \$100, and 10% Legal Counsel @ \$144). Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.