

Customer Name: \_\_\_\_\_ Date: \_\_\_\_\_

Registered Representative Name: \_\_\_\_\_

Account No.: \_\_\_\_\_

CUSIPs: \_\_\_\_\_

**Items discussed with the customer:**

- Bond Features
- Disclosure Filings
- Rating
- Bond Insurance
- Pricing and Yield
- Interest Payments
- Tax Implications
- Call Provisions
- Risks

**Information Sources Consulted:** Note information sources you used in preparation for this sale (CHECK ALL THAT APPLY.)☐ EMMA (<http://emma.msrb.org>) (Continuing Disclosure page)☐ Industry sources☐ AAM Municipal Disclosure Notification [www.aam.us.com](http://www.aam.us.com)☐ Internet sources (list websites)\_\_\_\_\_  
\_\_\_\_\_☐ Other (list):\_\_\_\_\_  
\_\_\_\_\_

I will maintain the above checked items in client files as evidence of disclosures made to the client regarding this proposed municipal securities transaction.

**Registered Representative Name:** \_\_\_\_\_**Registered Representative Initials:** \_\_\_\_\_

Notes:

# Municipal Bond Transaction Disclosure Checklist Guide

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Before selling any municipal bond to a client, you are required to know – and be able to explain to and discuss with your customer – key aspects of the bond to:

- Make adequate disclosure under MSRB Rule G-17
- Ensure your recommendations are suitable under MSRB Rule G-19; and
- Fulfill your pricing responsibilities under MSRB Rule G-18 and G-30.

In order to comply with these rules, you will need to gather information about the security as detailed in the preceding checklist.

**The checklist, and the relevant bond information from sources such as the EMMA website, Advisors Assets Management (AAM), etc., are required to be kept in each customer file by the registered representative.**

**Items to be discussed with Customers:** Based on information obtained by you, you should know and be able to answer questions your customer has about the following areas:

✓ **Bond Features**

Preparation for customer: Note the bond's key terms, features and structural characteristics, including but not limited to, its issuer, source of funding (e.g. general obligation, revenue bond, or tax-backed), and repayment priority.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

✓ **Disclosure Filings**

Preparation for customer: Note if the issuer is current in its material event notices and other disclosure filings. Delinquencies should be viewed as a red flag.

Other considerations: Pay particular attention that audited financials are up to date and note any voluntary disclosures. Out-of-date or missing financials on EMMA may be an indication that material event disclosures have not been filed on EMMA.

Financial information to be submitted under SEC Rule 15c2-12 includes the following:

- Annual filing information updating the financial information provided in the official statement;
- Audited financial statements, if available but not included within the annual financial information; and
- Notices of failure to provide such information on a timely basis.

Notice events specified by SEC Rule 15c2-12 currently include the following, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Bond Calls;
- Defeasances;
- Release, substitution or sale of property securing repayment of the securities; and
- Rating changes

As of December 1, 2010, amendments to SEC Rule 15c2-12 will, among other things, eliminate the exemption for demand securities, delete the materiality condition from certain events, and expand the number of events to include:

- Tender offers;
- Bankruptcy or similar events;
- Mergers, consolidations, and asset sales, if material; and
- Appointment of a successor or additional trustee or changing the trustee's name, if material.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the EMMA Continuing Disclosure Page. If no disclosure events were present the registered representative should mark the trade ticket "No Material Events".

✓ **Rating**

Preparation for the customer: Note the bond's rating and whether the bond's issuer has recently been upgraded or downgraded or filed any default or other material event notices. If the bond rating is based on a credit enhancement, you should also know the underlying rating of the bond.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

✓ **Bond Insurance**

Preparation for customer: Note if the bond is insured, benefits from liquidity support, a letter of credit or otherwise backed by a third-party. If so, check the credit rating of the bond insurer or other backing, and the bond's underlying (without third-party support) rating. If supported by a third-party, review the terms and conditions under which the third-party support may terminate.

Other considerations: Note and disclose any differences between the insured and underlying ratings.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

✓ **Pricing and Yield**

Preparation for customer: Note how the bond is priced. The price of a bond is related to current market factors and can be priced above or below its par value for many reasons, including changes in the creditworthiness of a bond's issuer and a host of other factors, including prevailing interest rates.

Other considerations: Determine that the price bears a reasonable relationship to the prevailing market price. Note what the customer will be paying for the bond and what will show on the confirmation, including any transaction charges. Many clients do not understand accrued interest and why they must pay it. Also, bonds are generally traded as principal net, without a commission. Be prepared to explain the inverse relationship between yields and bond prices, and be sure that your customer understands long term interest rate risk, as well as the effect of any material events on the pricing of their bond.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

✓ **Interest Payments**

Preparation for customer: Note how and when the bonds' interest will be paid.

Other considerations: Most municipal bonds pay semiannually, but zero coupon municipal bonds pay all interest at the time the bond matures. New issues many times have odd first coupon dates and the first interest payment may be more or less than a typical 6 month payment amount. The interest rate paid on variable rate demand obligations (VRDOs) may be a "maximum" rate specified in official documents for the security, set by a formula specified in the official documents, or set by a remarketing agent. You should know how the interest rate was determined and, if set by formula, be able to explain the formula.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

### ✓ Tax Implications

Preparation for customer: Note the bond's tax status, under both state and federal laws, including the possibility that the bond may be subject to the federal Alternative Minimum Tax (AMT) or may be fully taxable (e.g. Build America Bonds).

Other considerations: Note whether the bond enjoys any state tax benefits. If your client is unaware of their personal tax situation, consider encouraging them to speak to a tax professional. For bonds trading at a discount to par due to interest rate increases, the gain, if held to maturity, is considered market discount and is taxed as ordinary income.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

### ✓ Call Provisions

Preparation for customer: Note the bond's call provisions, if any, which allow the issuer to retire the bond before it matures, and how a call would impact the expected future income and yield.

**Items that may be used as evidence of disclosure include, but are not limited to:**

A copy of the Municipal Disclosure Notification available from AAM or a copy of the BondTraderPro® detail.

### ✓ Risks

Preparation for customer: Note the bond's default risk, interest risk, liquidity, credit market, prepayment and call risks.

### References:

- Regulatory Notice 10-41
- EMMA: <http://emma.msrb.org>
- MSRB Glossary of Terms: <http://emma.msrb.org/educationcenter/glossary.aspx>
- MSRB Fact Sheet: Seven Questions to Ask When Investing in Municipal Bonds: [www.msrb.org/msrb1/EMMA/pdfs/SevenQuestionsToAskAboutMunicipalBonds.pdf](http://www.msrb.org/msrb1/EMMA/pdfs/SevenQuestionsToAskAboutMunicipalBonds.pdf)
- Small Entity Compliance Guide: Amendments to Municipal Securities Disclosure: [www.sec.gov/rules/final/2010/34-62184a-secg.htm](http://www.sec.gov/rules/final/2010/34-62184a-secg.htm)
- Advisors Asset Management (AAM): [www.aam.us.com](http://www.aam.us.com).