

by the underwriter as original issue discount securities a designation that they are "original issue discount" securities and a statement of the initial public offering price of the securities, *expressed as a dollar price.*

(D) Disclosure statements:

(1) The confirmation for zero coupon securities shall include a statement to the effect that "No periodic payments," *and, if applicable*, "callable below maturity value without notice by mail to holder unless registered."

(2) No change.

(E) No change.

(ii) Separate confirmation for each transaction. Each broker, dealer or municipal securities dealer for each transaction in municipal securities shall give or send to the customer a separate written confirmation in accordance with the requirements of (i) above. *Multiple confirmations may be printed on one page, provided that each transaction is clearly segregated and the information provided for each transaction complies with the requirements of (i) above; provided, however, that if multiple confirmations are printed in a continuous manner within a single document, it is permissible for the name and address of the broker, dealer, or municipal securities dealer and the customer to appear once at the beginning of the document, rather than being included in the confirmation information for each transaction.*

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The texts of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in Section (A), (B), and (C) below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

On July 11, 1995, the Commission approved the Board's recent amendment to rule G-15(a), on customer confirmations, which became effective on November 15, 1995.<sup>1</sup> This amendment constituted a major revision of the rule, which not only revised and reorganized the rule, but incorporated many interpretations that had been issued over the years.

The Board has identified a need for several technical amendments to clarify certain provisions of the rule. First, the proposed rule change would clarify that

the requirement in rule G-15(a)(i)(D)(1) to provide a disclosure statement relating to call features of zero coupon bonds is necessary on confirmations only if the bonds are callable. Therefore, the proposed rule change adds the language "if applicable" before the disclosure statement for call provisions. Second, rule G-15(a)(ii) requires dealers to provide a separate written confirmation for each transaction. The proposed rule change would clarify that separate confirmations may be printed as part of one document, as long as the information unique to each trade (e.g., securities description, yield, call information) is segregated and complies with the requirements of the rule.

Third, rule G-15(a)(i)(C)(1)(a) states that revenue bonds must be so identified, regardless of whether such designation appears in the title of the bond. In some cases, this provision leads to the revenue designation being stated twice on the confirmation, one in the title, and again in a separate information block. The proposed rule change makes clear that, if the bond is identified as a revenue bond on the title, there is no need to make an additional disclosure that the bond is a revenue bond. Fourth, dealers are required to disclose the initial public offering price of original issue discount securities in rule G-15(a)(i)(C)(4)(c). The proposed rule change would make clear that the initial public offering price would be expressed as a dollar price, rather than a yield.

Finally, rule G-15(a)(i)(A)(6)(h) states that the confirmation shall disclose any premium paid over the "accreted value" for callable zero coupon bonds. The rationale behind this provision is that customers purchasing callable zero coupon bonds in the secondary market can include a premium over the price at which all or some of the bonds may be called. This portion of the customer's investment is at risk to call.<sup>2</sup> The Board believes that the most important information for the customer in this situation is the amount of the purchase price at risk to a call at the lowest price at which all or some of the customer's bonds can be called. While the current language of rule G-15(a)(i)(A)(6)(h) stated this information in terms of "premium over accreted value," it is not entirely accurate because a customer's bonds are not always callable at accreted value. For example, a call may

be possible at a price that is a percentage of accreted value.

Accordingly, the text of the proposed rule change states simply that the amount to be disclosed is the percentage of the purchase price at risk due to the lowest possible call price that might be experienced by the customer. It further clarifies that the percentage must be calculated as the ratio between (i) the difference between the price paid by the customer and the lowest possible call price, and (ii) the price paid by the customer. It also makes clear that such an at-risk percentage must be disclosed only if it is applicable to the transaction. The Board believes that the proposed rule change more clearly reflects the rationale behind the provision than the current language.

In order to simplify compliance for dealers, the Board requests that the language in rule G-15(a)(i)(A)(6)(h) regarding disclosure of the premium paid over accreted value be withdrawn, effective upon filing. However, in order to allow dealers an opportunity to revise their confirmation procedures to accommodate the proposed rule change, the Board requests that the proposed rule change be made operative 90 days after filing with the Commission under Section 19(b)(3)(A) of the Act.

The Board believes the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act.<sup>3</sup>

### B. Self-Regulatory Organization's Statement on Burden on Competition

The Board does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any

<sup>1</sup> See Securities Exchange Act Release No. 35953 (July 11, 1995), 60 FR 36843.

<sup>2</sup> In contrast, the Board believes that a customer purchasing a normal coupon bond at a price above par in the secondary market usually understands that, if any of the bonds are called at par, the premium paid in the market may be lost.

<sup>3</sup> Section 15B(b)(2)(C) states in pertinent part that the rules of the Board "shall be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling processing information with respect to, and facilitating transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and in general, to protect investors in the public interest."