

Replaced by Comptroller's Handbook - Municipal Securities Rulemaking Board Rules.

- Did the advertisements contain the date of sale of the securities by the issuer to the syndicate?
 - Did the advertisement show either the initial reoffering prices or yields or the prices or yields that existed at the time the advertisement was placed for publication?
9. Has the bank advertised any municipal securities or municipal securities services through public media or other promotional material designed for customers? If so:
- Are advertisements reviewed to determine they are not false or misleading?
 - Are advertisements approved by a principal prior to “first use”?

Offsetting Resale and Repurchase Transactions

10. Has the board of directors, consistent with its duties and responsibilities, adopted written offsetting repurchase transaction policies that:
- a. Limit the aggregate amount of repurchase transactions?
 - b. Limit the amounts in unmatched or extended (over 30 days) maturity transactions?
 - c. Determine maximum time gaps for unmatched maturity transactions?
 - d. Determine minimally acceptable interest rate spreads for various maturity transactions?
 - e. Determine the maximum amount of funds to be extended to any single or related firms through “reverse repo” transactions, involving unsold (through forward sales) securities?
 - f. Require firms involved in “reverse repo” transactions to submit corporate resolutions stating the names and limits of individuals, who are authorized to commit the firm?
 - g. Require submission of current financial information by firms involved in “reverse repo” transactions?

- h. Provide for periodic credit reviews and approvals for firms involved in “reverse repo” transactions?
 - i. Specify types of acceptable repurchase transaction collateral (if so, indicate type _____).
11. Are written collateral control procedures designed so that:
- a. Collateral assignment forms are used?
 - b. Collateral assignments of registered securities are accompanied by powers of attorney signed by the registered owner?
 - Registered securities are registered in bank or bank’s nominee name when they are assigned as collateral for extended maturity (over 30 days) “reverse repo” transactions?
 - c. Funds are not disbursed until “reverse repo” collateral is delivered into the physical custody of the bank or an independent safekeeping agent?
 - d. Funds are only advanced against predetermined collateral margins or discounts?
 - If so, indicate margin or discount percentage _____.
 - e. Collateral margins or discounts are predicted upon:
 - The type of security pledged as collateral?
 - Maturity of collateral?
 - Historic and anticipated price volatility of the collateral?
 - Maturity of the “reverse repo” agreements?
 - f. Maintenance agreements are required to support pre-determined collateral margin or discount?
 - g. Maintenance agreements are structured to allow margin calls in the event of collateral price declines?
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- h. Collateral market value is frequently checked to determine compliance with margin and maintenance requirements (if so, indicate frequency _____)?

Custody and Movement of Securities

12. *Are the bank's procedures such that persons do not have sole custody of securities in that:
- a. They do not have sole physical access to securities?
 - b. They do not prepare disposal documents that are not also approved by authorized persons?
 - c. For the security custodian, supporting disposal documents are examined or adequately tested by a second custodian?
 - d. No person authorizes more than one of the following transactions: execution of trades, receipt and delivery of securities, and collection or disbursement of payment?
13. *Are securities physically safeguarded to prevent loss, unauthorized disposal, or use? And:
- a. Are negotiable securities kept under dual control?
 - b. Are securities counted frequently, on a surprise basis, reconciled to the securities record, and the results of such counts reported to management?
 - c. Does the bank periodically test for compliance with provisions of its insurance policies regarding custody of securities?
 - d. For securities in the custody of others:
 - Are custody statements agreed periodically to position ledgers, and any differences followed up to a conclusion?
 - Are statements received from brokers and other dealers reconciled promptly, and any differences followed up to a conclusion?

- Are positions for which no statements are received confirmed periodically, and stale items followed up to a conclusion?
14. Are trading account securities segregated from other bank owned securities or securities held in safekeeping for customers?
 15. *Is access to the trading securities vault restricted to authorized employees?
 16. Do withdrawal authorizations require countersignatures to indicate security count verifications?
 17. Is registered mail used for mailing securities, and are adequate receipt files maintained for such mailings (if registered mail is used for some but not all mailings, indicate criteria and reasons)?
 18. Are pre-numbered forms used to control securities trades, movements and payments?
 19. If so, is numerical control of pre-numbered forms accounted for periodically by persons independent of those activities?
 20. Do alterations to forms governing the trade, movement, and payment of securities require:
 - a. *Signature of the authorizing party?
 - b. Use of a change of instruction form?
 21. With respect to negotiability of registered securities:
 - a. Are securities kept in non-negotiable form whenever possible?
 - b. Are all securities received, and not immediately delivered, transferred to the name of the bank or its nominee and kept in non-negotiable form whenever possible?
 - c. Are securities received checked for negotiability (endorsements, signature, guarantee, legal opinion, etc.) and for completeness

(coupons, warrants, etc.) before they are placed in the vault?

Records Maintenance

22. Does the bank maintain:

a. Order tickets which include:

- Capacity as principal or agent?
- If order is firm or conditional?
- Terms, conditions, or instructions and modifications?
- Type of transaction (purchase or sale)?
- Execution price?
- Description of security?
- Date and time of order receipt?
- Date and time of execution?
- Dealer's or customer's name?
- Delivery and payment instructions?
- Terms, conditions, date and time of cancellation of an agency order?

b. Customer confirmations, including as applicable (required by MSRB Rule G-15):

- Bank dealer's name, address, and phone number?
- Customer's name?
- Designation of whether transaction was a purchase from or sale to the customer?
- Par value of securities?
- Description of securities, including at a minimum:
 - Name of issuer?
 - Interest rate?
 - Maturity rate?
 - Designation, if securities are limited tax?
 - Subject to redemption prior to maturity (callable)?
 - Designation, if revenue bonds and the type of revenue?
 - The name of any company or person in addition to the issuer who is obligated, directly or indirectly, to pay debt service on revenue bonds? (In the case of more than one such obligor, the

- phrase “multiple obligors” will suffice.)
- Dated date, if it affects price or interest calculations?
 - First interest payment date, if other than semi-annual?
 - Designation, if securities are “fully registered” or “registered as principal”?
 - Designation, if securities are “pre-refunded”?
 - Designation, if securities have been “called,” maturity date fixed by call notice and amount of call price?
 - Denominations of bearer bonds, if other than denominations of \$1,000 and \$5,000 par value?
 - Denominations of registered bonds, if other than multiples of \$1,000 par value up to \$100,000 par value?
 - Denominations of municipal notes?
 - CUSIP number, if assigned?
 - Trade date and time of execution, or a statement that time of execution will be furnished upon written request of the customer?
 - Settlement date?
 - Yield and dollar price? Only the dollar price need be shown for securities traded at par.
 - For transactions in callable securities effected on a yield basis, the resulting price calculated to the lowest of price to call premium, par option (callable at par) or to maturity, and if priced to premium call or par option, a statement to that effect and the call or option date and price used in the calculation?
 - For transactions in callable securities effected on the basis of dollar price, the resulting yield calculated to lowest of yield to premium call, par option or maturity?
 - Amount of accrued interest?
 - Extended principal amount?
 - Total dollar amount of transaction?
 - The capacity in which the bank dealer effected the transaction:
 - As principal for own account?
 - As agent for customer?
 - As agent for a person other than the customer?
 - As agent for both the customer and another person (dual agent)?
 - If a transaction is effected as agent for the customer or as dual agent:
 - Either the name of the contra-party or a statement that the

- information will be furnished upon request?
 - The source and amount of any commission or other remuneration to the bank dealer?
 - Payment and delivery instructions?
 - Special instructions, such as:
 - “Ex-legal” (traded without legal opinion)?
 - “Flat” (traded without interest)?
 - “In default” as to principal or interest?
- c. Dealer confirmations, including as applicable (required by MSRB Rule G-12):
- Bank dealer’s name, address and telephone number?
 - Contra-party identification?
 - Designation of purchase from or sale to?
 - Par value of securities?
 - Description of securities, including at a minimum:
 - Name of issuer?
 - Interest rate?
 - Maturity date?
 - Designation, if securities are limited tax?
 - Subject to redemption prior to maturity (callable)?
 - Designation, if revenue bonds and the type of revenue?
 - The name of any company or person in addition to the issuer who is obligated, directly or indirectly, to pay debt service on revenue bonds? (In the case of more than one such obligor, the phrase “multiple obligors” will suffice.)
 - Dated date, if it affects price or interest calculations?
 - First interest payment date, if other than semi-annual?
 - Designation, if securities are “fully registered” or “registered as principal”?
 - Designation, if securities are “pre-refunded”?
 - Designation, if securities have been “called,” maturity date fixed by call notice and amount of call price?
 - Denominations of bearer bonds, if other than denominations of \$1,000 and \$5,000 par value?
 - Denominations of registered bonds, if other than multiples of \$1,000 par value up to \$100,000 par value?
 - Denominations of municipal notes?
 - CUSIP number, if assigned?
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- Trade date?
- Settlement date?
- Yield to maturity and resulting dollar price? Only the dollar price need be shown for securities traded at par or on a dollar basis.
 - For transactions in callable securities effected on a yield basis, the resulting price calculated to the lowest of price to call premium, par option (callable at par) or to maturity?
 - If applicable, the fact that securities are priced to premium call or par option and the call or option date and price used in the calculation?
- Amount of accrued interest?
- Extended principal amount?
- Total dollar amount of transaction?
- Payment and delivery instructions?
- Special instructions, such as:
 - “Ex-legal” (traded without legal opinion)?
 - “Flat” (traded without interest)?
 - “In default” as to principal or interest?

d. Purchase and sale journals or blotters which include:

- Trade date?
- Description of securities?
- Aggregate par value?
- Unit dollar price or yield?
- Aggregate trade price?
- Accrued interest?
- Name of buyer or seller?
- Name of party received from or delivered to?
- Bond or note numbers?
- Indication if securities are in registered form?
- Receipts or disbursements of cash?
- Specific designation of “when issued” transactions?
- Transaction or confirmation numbers recorded in consecutive sequence to insure that transactions are not omitted? ✓
- Other references to documents of original entry? ✓

e. Short-sale ledgers which include:

- Sale price? ✓
 - Settlement date?
 - Present market value? ✓
 - Basis point spread? ✓
 - Description of collateral? ✓
 - Cost of collateral or cost to acquire collateral? ✓
 - Carrying charges? ✓
- f. Security position ledgers showing separately for each security positioned for the bank's own account:
- Description of the security?
 - Posting date (either trade or settlement date, provided posting date is consistent with other records of original entry)?
 - Aggregate par value?
 - Cost?
 - Average cost? ✓
 - Location?
 - Count differences classified by the date on which they were discovered?
(For questions dealing with position ledgers, multiple maturities of the same issue of municipal securities and multiple coupons of the same maturity may be shown on the same record, provided that adequate secondary records separately identify such maturities and coupons.)
- g. Securities transfer or validation ledgers which include:
- Address where securities were sent?
 - Date sent?
 - Description of security?
 - Aggregate par value?
 - If registered securities:
 - Present name of record?
 - New name to be registered?
 - Old certificate or note numbers?
 - New certificate or note numbers?
 - Date returned?

- h. Securities received and delivered journals or tickets which include:
- Date of receipt or delivery?
 - Name of sender and receiver?
 - Description of security?
 - Aggregate par value?
 - Trade and settlement dates?
 - Certificate numbers?
- i. Cash or wire transfer receipt and disbursement tickets which include:
- Draft or check numbers?
 - Customer accounts debited or credited?
 - Notation of the original entry item that initiated the transaction?
- j. Cash or wire transfer journals which additionally include:
- Draft or check reconciliation?
 - Daily totals of cash debits and credits?
 - Daily proofs?
- k. Fail ledgers which include:
- Description of security?
 - Aggregate par value?
 - Price?
 - Fail date? ✓
 - Date included on fail ledger? ✓
 - Customer or dealer name?
 - Resolution date?
 - A distinction between a customer and a dealer fail?
 - Follow-up detail regarding efforts to resolve the fail? ✓
- l. Due bill ledgers which include:
- Description of securities sold?
 - Aggregate par value?
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- Price?
- Date of receipt of customer funds?
- Customer name?
- Description of collateral?
- Market value of collateral?
- Date collateral was assigned or deposit reserve treatment commenced?
- Date securities sold were delivered?

m. Securities borrowed and loaned ledgers which include:

- Date of transaction?
- Description of securities?
- Aggregate par value?
- Market value of securities? ✓
- Contra-party name?
- Value at which security was loaned?
- Date returned?
- Description of collateral? ✓
- Aggregate par value of collateral? ✓
- Market value of collateral? ✓
- Collateral safekeeping location? ✓
- Dates of periodic valuations? ✓

n. Records concerning written or oral put options, guarantee and repurchase agreements which include:

- Description of the securities?
- Aggregate par value?
- Terms and conditions of the option, agreement, or guarantee?

o. Customer account information which includes:

- Customer's name and residence or principal business address?
- Whether customer is of legal age?
- Occupation?
- Name and address of employer? And:
 - Whether customer is employed by a securities broker or dealer or by another municipal securities dealer?

- Name and address of beneficial owner or owners of the account if other than customer? And:
 - Whether transactions are confirmed with such owner or owners?
 - Signature of municipal securities representative introducing the account?
 - Signature of municipal securities principal accepting the account?
 - With respect to discretionary accounts:
 - Customer’s written authorization to exercise discretionary authority?
 - Written approval of the establishment of such account by the municipal securities principal who supervises the account?
 - Written approval by the supervising municipal securities principal for each transaction in the account, indicating the time and date of approval?
 - Name and address of person(s) authorized to transact business for a corporate, partnership, or trusteed account? And:
 - Copy of powers of attorney, resolutions, or other evidence of authority to effect transactions for such an account? ✓
 - With respect to borrowing or pledging securities held for the accounts of customers:
 - Written authorization from the customer authorizing such activities? ✓
 - Customer complaints including:
 - Records of all written customer complaints?
 - Record of actions taken concerning those complaints?
- p. Customer and the bank dealer’s own account ledgers which include:
- All purchases and sales of securities?
 - All receipts and deliveries of securities?
 - All receipts and disbursements of cash?
 - All other charges or credits?
- q. Records of syndicates’ joint accounts or similar accounts formed for the purchase of municipal securities which include:
- Underwriter agreements? And:

- Description of the security?
- Aggregate par value of the issue?
- Syndicate or selling group agreements? And:
 - Participants' names and percentages of interest?
 - Terms and conditions governing the formation and operation of the syndicate?
 - Date of closing of the syndicate account?
 - Reconciliation of syndicate profits and expenses?
- Additional requirements for syndicate or underwriting managers which include:
 - All orders received for the purchase of securities from the syndicate or account, except bids at other than the syndicate price?
 - All allotments of securities and the price at which sold?
 - Date of settlement with the issuer?
 - Date and amount of any good faith deposit made with the issuer?

r. Files which include:

- Advertising and sales literature? ✓
- Prospectus delivery information? ✓

s. Internal supervisory records which include:

- Personnel registration and investigation information? ✓
- Account reconciliation and follow-up? ✓
- Profit analysis by trader? ✓
- Sales production reports? ✓
- Periodic open position reports computed on a trade date or when issued basis? ✓
- Reports of own bank credit extensions used to finance the sale of trading account securities? ✓

23. Does the bank preserve the following municipal securities records for the periods of time indicated:

- a. An itemized daily record of all purchases and sales, all receipts and deliveries of securities, all receipts and disbursements of cash, and all

- other debits and credits pertaining to municipal securities for 6 years?
- b. Customer and bank dealer's own account ledgers for 6 years?
 - c. Customer complaint records for 6 years?
 - d. Customer account information relating to the opening and maintenance of the account for a period of at least 6 years following the closing of an account?
 - e. Securities position ledgers?
 - f. Records of syndicate transactions for 6 years? (Such records need not be preserved for an account that was not successful in purchasing an issue of municipal securities.)
 - g. Secondary records for 3 years which include:
 - Transfer, validation, borrowed or loaned and fail ledgers or tickets?
 - Put options and repurchase agreements?
 - Records of principal and agency transactions (order tickets and confirmations)?
 - Checkbooks, checking account statements, canceled checks, reconciliation, and wire transfers?
 - Receivables and payables?
 - All written communication received or sent, including inter-office memoranda, on the conduct of activities in municipal security transactions?
 - All other customer account information?
 - All other written agreements entered into with respect to any municipal securities account?
24. Are all records required to be preserved in a readily accessible place for at least 2 years, and thereafter, in a reasonably accessible place?
25. If records are preserved in any manner other than the original format of the record, does the bank have available facilities for ready retrieval, inspection and reproduction of legible facsimiles?
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26. Has the bank officially designated at least one registered municipal securities principal to maintain and preserve records (if so, give name, _____)?
- Is a record of each such designation maintained showing the name, title, and business address of the person so designated and the date of designation?
 - Is such a record retained for 6 years following any change in designation?

Purchase and Sales Transactions

27. Are all transactions promptly confirmed in writing to the actual customers or dealers?
28. Are confirmations compared or adequately tested to purchase and sales memoranda and reports of execution of orders, and any differences investigated and corrected (including approval by a designated responsible employee)?
- a. Are confirmations and purchase and sale memoranda checked or adequately tested for computation and terms by a second individual?
29. Are comparisons received from other dealers or brokers compared with confirmations, and any differences promptly investigated?
- a. Are comparisons approved by a designated individual (if so, give name _____)?

Customer and Dealer Accounts

30. Do account bookkeepers periodically transfer to different account sections or otherwise rotate posting assignments?
31. Are letters mailed to customers requesting confirmation of changes of address?
- a. Are confirmation requests mailed to both the customer's old and new address?

32. Are separate customer account ledgers maintained for:
- Employees?
 - Affiliates?
 - Own bank's trust accounts?
33. Are customer inquiries and complaints handled exclusively by designated individuals who have no incompatible duties?
34. Are written municipal securities customer account broker-to-broker transfers coordinated so that (MSRB rule G-26):
- a. Upon receipt of a customer transfer instruction, the receiving party immediately submits the instruction to the carrying party?
 - b. The customer account carrying party within five business days validates and returns the instruction or takes exception to and advises the receiving party?
 - c. The customer account carrying party, within five business days of the validation, completes the transfer of the customer account?
 - d. The customer account receiving and carrying parties establish fail-to-receive and fail-to-deliver contracts on their books and institute the close-out procedures of rule G-12?

Other

35. Is the preparation, additions, and posting of subsidiary records performed and/or adequately reviewed by persons who do not also have sole custody of securities?
36. Are subsidiary records reconciled, at least monthly, to the appropriate general ledger accounts and are reconciling items adequately investigated by persons who do not also have sole custody of securities?
37. Are fails to receive and deliver under a separate general ledger control?

- a. Are fail accounts periodically reconciled to the general ledger and any differences followed up to a conclusion?
 - b. Are periodic aging schedules prepared (if so, indicate frequency _____)?
 - c. Are stale fail items confirmed and followed up to a conclusion?
 - d. Are stale items valued periodically and, if any potential loss is indicated, is a particular effort made to clear such items or to protect the bank from loss by other means?
38. With respect to securities loaned and borrowed positions:
- a. Are details periodically reconciled to the general ledger, and any differences followed up to a conclusion?
 - b. Are positions confirmed periodically (if so, indicate frequency _____)?
39. Is the compensation of all department employees limited to salary and a non-departmentalized bonus or incentive plan?
- a. Are sales representatives' incentive programs based on sales volume or sales profit, and not department income?

Conclusion

40. Is the foregoing information an adequate basis for evaluating internal control in that there are no significant additional internal auditing procedures, accounting controls, administrative controls, or other circumstances that impair any controls or mitigate any weaknesses indicated above (explain negative answers briefly, and indicate conclusions as to their effect on specific examination or verification procedures)?
41. Based on a composite evaluation, as evidenced by answers to the foregoing questions, internal control is considered _____ (good, medium, or bad).

Bank Dealer

Activities (Section 204)

Verification Procedures

1. Test the additions of the inventory schedules and the reconciliation of the schedules to the general ledger.
2. Request that safekeeping agents, receiving and delivering parties of items in transit, and holders of loaned securities provide detailed lists of all securities held.
3. Using appropriate sampling techniques, select items from inventory schedules and perform the following:
 - a. Prepare count slips indicating the quantity and description of the security.
 - b. Determine which securities are:
 - Held by the bank.
 - Held by others.
 - Held partially by the bank and partially by others.
 - c. Indicate the location of securities held entirely by the bank or by others on the count slips.
 - d. For securities held partially by the bank and partially by others:
 - Indicate the quantity held by the bank on the count slip.
 - Prepare additional count slips indicating the quantity held by others.
 - e. Sort count slips by location.
 - f. Number each set of count slips consecutively, and maintain a control record of the numbers used.
4. For those securities selected in step 3 which are held by the bank:

- a. Physically examine and count the securities.
 - b. If physical count agrees with the count slip amount, initial the count slip.
 - c. If physical count does not agree with the count slip amount:
 - Note the quantity actually counted.
 - Request that bank personnel recount the security.
 - If the discrepancy is resolved, initial the count slip.
 - If the discrepancy is not resolved, initial the count slip, and request that bank personnel sign it.
 - Give unresolved count slip discrepancies to the examiner controlling the count for follow-up and investigation.
5. For those securities selected in step 3 which are held by others:
- a. Agree quantity as shown on safekeeping confirmation to count slip.
 - b. Investigate any discrepancies.
6. Account for all count slips, and:
- a. Determine that all discrepancies have been satisfactorily resolved.
 - b. Discuss with management and prepare report comments on any unresolved discrepancies.
7. Using appropriate sampling techniques, select items from fails and due bills schedules, and:
- a. Prepare and mail confirmation forms to customer(s). Confirmation forms should include a description of the security and the nature of the transaction, price, delivery date, and current balance.
 - b. Follow-up on any no-replies or exceptions and resolve differences.
8. Using appropriate sampling techniques, select items from good faith deposits and cash collateral schedules, and:

- a. Prepare and mail confirmation forms to syndicate participants.
 - b. Follow-up on any no-replies or exceptions and resolve difference.
9. Test gains and losses on underwriting and trading account transactions since the last examination by selecting items from sales records, and:
- a. Determining sales price by examining invoices or broker's advices.
 - b. Checking computation of book value on settlement date.
 - c. Calculating gain or loss.
 - d. Tracing gain or loss to proper recording in general ledger.

(Steps 10 and 11 should be performed only if the examiner-in-charge determines that it is necessary as an extension of similar computations made in NBSS reports.)

10. Obtain or prepare a schedule showing the accrued interest balances and the ending trading account balance for each quarter since the last examination, and:
- a. Calculate quarterly ratio.
 - b. Investigate significant fluctuations and/or trends.
11. Obtain or prepare a schedule showing the monthly income amounts and the average securities balances for each month since the last examination, and:
- a. Calculate monthly yield.
 - b. Investigate significant fluctuations and/or trends.