

# Client Alert

Current Issues Relevant to Our Clients

October 23, 2014

## Amended MSRB Continuing Education Rule Requires Annual Training

*The Municipal Securities Rulemaking Board (“MSRB”) recently announced the approval of an amended continuing education rule that will require annual training and expand the coverage of its Firm Element. Amended MSRB Rule G-3 will require brokers, dealers and municipal securities dealers to determine which persons registered with the dealer regularly engage in and/or supervise municipal securities activities. Dealers will need to conduct annual training on municipal securities issues for these identified, registered persons. The amended rule takes effect January 1, 2015, and affected dealers must complete the initial annual training requirement before December 31, 2015. You can obtain a copy of the MSRB notice about the amendments [here](#).*

### Background and Former Rule G-3

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MSRB Rule G-3 outlines the MSRB’s professional qualification requirements, including its continuing education requirement for registered persons. A registered person means any person registered with a dealer as a municipal securities representative, municipal securities principal, municipal securities sales principal or financial and operations principal pursuant to the rule. The continuing education requirement consists of two parts: a Regulatory Element and a Firm Element.

The Regulatory Element requires registered persons to participate in periodic computer-based training on regulatory, compliance, ethical and supervisory subjects. This element remains unchanged by the amendments.

The Firm Element requires dealers to maintain a continuing education program for persons subject to the Firm Element. Under the former rule, the Firm Element applied only to registered persons who had direct contact with customers in connection with securities sales, trading or investment banking activities and their immediate supervisors. The rule also requires dealers to annually evaluate their training needs, commonly called a needs analysis, and develop a written training plan. Under the former rule, dealers could make a good faith assessment as part of their needs analysis that registered persons required no additional training outside of the Regulatory Element.

### Amended Rule G-3 Mandates Annual Training by Dealers

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In addition to their obligations to conduct a needs analysis and maintain a continuing education program, the

amended rule now requires dealers to conduct annual training for registered representatives who regularly engage in and principals who regularly supervise municipal securities activities. As a result, dealers will no longer be able to make a determination as part of their needs analysis that covered registered persons required no additional training outside of the Regulatory Element. The annual training requirement should generally be designed to keep registered persons current regarding job- and product-related subjects.

The amended rule does not provide any specifications with regard to the exact nature of the annual training. The MSRB regulatory notice discussing the amendments suggests that the training requirement is meant to be flexible in order to allow dealers to tailor the training to their specific municipal securities activities. However, the dealer’s general training plan must, at a minimum, cover matters concerning: “general investment features and associated risk factors; suitability and sales practice considerations; and applicable regulatory requirements” as related to the dealer’s services and products.

### Firm Element Obligations Extended to Additional Registered Persons

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The amendments also expand the registered persons covered under the Firm Element. Under the amended rule any registered person who regularly engages in or supervises municipal securities activities must participate in the dealer’s annual training. Unlike the previous version of the rule, registered persons are subject to the Firm Element regardless of whether that person has any direct contact with customers. However, not all registered persons are subject to the Firm Element and annual training requirement; registered persons who engage in

municipal securities activities on an infrequent or *de minimis* basis do not need to participate in the annual training. The revised rule requires dealers to document their method for determining who is subject to the rule as part of their needs analysis and written training plan.

## For More Information

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*To discuss any topic covered here, please contact any member of the Investment Management Group or visit us online at [chapman.com](http://chapman.com).*

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