

Customer Name: \_\_\_\_\_ Account Number: \_\_\_\_\_

Bonds Discussed: \_\_\_\_\_ Date Disclosed: \_\_\_\_\_

Before selling any municipal bond, 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 Rules G-18 and G-30.

In order to comply with these rules, you will need to gather information about the security. Much of the information is available from the Municipal Securities Rulemaking Board’s (MSRB) Electronic Municipal Market Access system (EMMA) or from former Nationally Recognized Municipal Information Repositories (NRMSIRs), which are the repositories for material events notices and financial information (also called “continuing disclosures”) submitted by issuers pursuant to Securities Exchange Act (SEA) Rule 15c2012.

Rule 15c2-12(c) requires you to have a reasonable process to receive this information prior to recommending the purchase or sale of a municipal security. However, MSRB Rule G-17 requires you to disclose all “material information” about the security, which includes not only continuing disclosures but information available from other sources, as described below. This information must also be considered in your suitability and pricing analyses.

Please also refer to Regulatory Notice 10-41 and the firm’s Policies and Procedures for further information.

**A. Material Information Sources**

Information Sources Consulted:

Note information sources you used in preparation for this sale.

- EMMA (<http://emma.msrb.org>)
- NRMSIRs (list): \_\_\_\_\_

- Industry sources (check any that apply and attach copies of relevant information)
  - Bloomberg
  - Search engines (list engine and search terms): \_\_\_\_\_
  - Local newspapers
  - Other (list): \_\_\_\_\_
- **EMMA.** ([emma.msrb.org](http://emma.msrb.org); type the bond’s CUSIP number in the MuniSearch box.) EMMA contains:
  - Official Statements (OS) for most bonds issued since 1990. In addition to being a source of general information about the security, the OS (or a notice explaining how the OS may be obtained from the EMMA Web site) must be given to the customer if the transaction occurs within the primary offering disclosure period (defined as the period beginning when the first order is submitted to the underwriter or the date the underwriter purchases the securities from the issuer and ending 25 calendar days following the settlement date of the offering). This requirement applies to secondary market transactions as well as to primary market transactions, as long as they occur during the primary offering disclosure period. Note: If the official statement is not available from EMMA, the offering may be exempt from the Official Statement submission requirement. Exemptions are currently available for certain limited offerings, commercial paper offerings, and demand securities.
  - Continuing Disclosure Documents submitted pursuant to SEA Rule 15c2-12 since July 1, 2009. Financial and operating data in the Official Statement may have been superseded by the issuer’s on-going disclosures, available in EMMA’s Continuing Disclosure section. Note: Material information on the bond may be available to the public even though not on EMMA: it may be exempt, not yet filed with EMMA, or filed but not yet publicly posted.
  - Real-time trade prices since January 31, 2005. This information is reported by dealers pursuant to MSRB Rule G-14.

- **NRMSIRs.** Continuing disclosure documents submitted pursuant to SEA Rule 15c2-12 before July 1, 2009, may be available from the four former NRMSIRs: Bloomberg Municipal Repository; DPC DATA Inc.; Interactive Data Pricing and Reference Data, Inc.; and Standard & Poor's Securities Evaluations, Inc.
- **Established Industry Sources.** In addition to the continuing disclosures available from EMMA and the NRMSIRs, you may need to review other established industry sources, such as press releases, research reports, and other data provided by independent sources, (e.g., Bloomberg, search engines, local newspapers) to ensure that you have the material information relevant to your proposed transaction. This is because: 1) SEA Rule 15c2-12 does not currently impose a deadline for filing continuing disclosures (please note that on December 1, 2010, a 10-business day deadline will be implemented); 2) issuers sometimes fail to submit continuing disclosures; and 3) additional material information not covered by Rule 15c2-12 may be available.
- **Other Material Facts.** You have an obligation to disclose material information known to you about a security even if the information is not currently available from EMMA or other industry sources.
- **Important:** The fact that material information is on EMMA or is otherwise public does not relieve you of the obligation to disclose to it to a customer. You are also required to disclose all material information as outlined above even if the transaction is unsolicited.

## B. Items To Be Discussed with Customer

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

### (1) 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.

*Notes from discussion with customer:*

### (2) Disclosure Filings

**Preparation for customer:** Note if the issuer is current in its material event notices and other continuing 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 SEA Rule 15c2-12 includes the following:

- Annual financial information updating the financial information 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 SEA 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 SEA 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.

*Notes from discussion with customer:*

### (3) Rating

**Preparation for 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.

*Notes from discussion with customer:*

### (4) 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.

*Notes from discussion with customer:*

### (5) 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.

*Notes from discussion with customer:*

### (6) Interest Payments

**Preparation for customer:** Note how and when the bond's 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 the remarketing agent. You should know how the interest rate was determined and, if set by formula, be able to explain the formula.

**Notes from discussion with customer:**

**(7) 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.

**Notes from discussion with customer:**

**(8) 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.

**Notes from discussion with customer:**

**(9) Risks**

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

**Notes from discussion with customer:**

**(10) Others :**

**Preparation for customer:** Other material information

**Notes from discussion with customer:**

With my signature below, I attest that at or prior to the sale, I have disclosed to the client all material facts that are known to Colorado Financial Service Corporation and me, and/or that are reasonably accessible to the market through established industry sources.

\_\_\_\_\_  
Registered Representative's Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Municipal Securities Sales Supervisor's Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date