

## Municipal Advisors

### Guidance Regarding Member Firms' Supervisory Obligations when Participating in Investment-Related Activities with Municipal Clients

#### Summary

FINRA is issuing this *Notice* to remind member firms of their supervisory obligations under FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) if they hold or transact in customer accounts owned by municipal entities or obligated persons (municipal clients), as defined in Section 15B of the Securities Exchange Act of 1934 (Exchange Act), and participate in investment-related activities with municipal clients, such as recommending or selling non-municipal securities products to such municipal clients. Under these circumstances, member firms are obligated to determine if such activities require registration as a municipal advisor.

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#### Background and Discussion

The Dodd-Frank Act required persons acting as municipal advisors to register with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).<sup>1</sup> These new municipal advisor requirements were intended to mitigate some of the problems involving financial intermediaries providing unregulated advice to or soliciting municipal clients.<sup>2</sup> These issues included conflicts of interest and a lack of appropriate qualifications or training for rendering such advice.<sup>3</sup>

August 16, 2019

#### Notice Type

- ▶ Guidance

#### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management

#### Key Topics

- ▶ Compliance Programs
- ▶ Municipal Advisors
- ▶ Municipal Securities
- ▶ Supervision

#### Referenced Rules & Notices

- ▶ FINRA Rule 3110
- ▶ FINRA Rule 3120

The statutory definition of a “municipal advisor” is broad and includes persons that may not have been considered to be municipal advisors prior to the enactment of the Dodd-Frank Act.<sup>4</sup> In addition, the SEC’s registration rules for municipal advisors (Final Rules)<sup>5</sup> interpreted the statutory exclusions from the definition of “municipal advisor” and provided additional exemptions.<sup>6</sup>

Recent FINRA examinations<sup>7</sup> have found that some member firms are engaged in investment-related activities with municipal clients, but have not registered as municipal advisors and do not have reasonably designed supervisory systems and controls to determine whether they are required to register as municipal advisors. Specifically, these firms participated in selling non-municipal securities products (*e.g.*, U.S. Treasury securities or collateralized mortgage obligations (CMOs))<sup>8</sup> to municipal clients, or, in other instances, interacted with municipal clients with accounts containing or transacting with proceeds of municipal securities, but had not established and maintained supervisory systems to prevent their registered representatives from engaging in unregistered municipal advisory activities. In some instances, firms had established procedures for this purpose, but the procedures were not reasonably designed and the firms also failed to have adequate controls in place to test and verify the adequacy of the procedures.

FINRA is reminding member firms that engage in investment-related activities with municipal clients that they must establish, maintain and enforce supervisory systems and controls pursuant to FINRA Rules 3110 (Supervision)<sup>9</sup> and 3120 (Supervisory Control System)<sup>10</sup> reasonably designed to prevent and detect unregistered municipal advisory activity and non-compliance with its attendant obligations. **This Notice is intended to assist broker-dealers in complying with their existing obligations under SEC, MSRB and FINRA rules and does not create any new requirements or expectations.**

### Municipal Advisor Definition

A threshold analysis a firm must undertake when interacting with municipal clients is whether any of its activities fall within the definition of a “municipal advisor.” The term “municipal advisor” means a person (who is not a municipal entity or an employee of a municipal entity) that:

provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or undertakes a solicitation of a municipal entity or obligated person.<sup>11</sup>

The term “advice” is broadly construed, and the SEC has explicitly stated that the term does not lend itself to a bright line test and its ultimate meaning will depend on “all the relevant facts and circumstances.”<sup>12</sup> The SEC has further stated that:

for purposes of the municipal advisor definition, advice includes, without limitation, a *'recommendation'* that is particularized to the specific needs, objectives, or circumstances of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, based on all the facts and circumstances (emphasis added).<sup>13</sup>

Consistent with FINRA's approach to what constitutes a recommendation, the inquiry into whether advice has been given to a municipal client is objective rather than subjective in nature.<sup>14</sup> The term "municipal financial products" is defined to mean municipal derivatives, guaranteed investment contracts, and investment strategies.<sup>15</sup> The term "investment strategies" is defined to include plans or programs for the investment of the proceeds of municipal securities<sup>16</sup> that are not municipal derivatives, guaranteed investment contracts, and the recommendation of and brokerage of municipal escrow investments.<sup>17</sup>

As such, a person recommending an investment strategy to a municipal client regarding how to invest the proceeds from the issuance of municipal securities, or brokering municipal escrow investments, could be required to register as a municipal advisor.

A firm that holds or transacts in municipal client accounts, but does not wish to register as a municipal advisor and is not otherwise currently required to do so, should still maintain written supervisory procedures and controls that are reasonably designed to help ensure that the activities in which it engages do not require registration as a municipal advisor. Some firms may decide to discontinue providing service to municipal clients. Such firms must have written procedures and controls in place to know their customers, including whether their customers are municipal clients. Should a firm wish to continue providing service to municipal clients, it may determine to provide services to such customers without providing "advice" (or recommendations) within the meaning of the Final Rules or, alternatively, without providing services with respect to bond proceeds. In either case, the firm must have written procedures and controls—including review, documentation and training—that are reasonably designed to help ensure the firm is not providing "advice" within the meaning of the Final Rules or that it is avoiding advice with respect to bond proceeds. For example, a firm may obtain written representations from knowledgeable municipal client officials regarding the nature of the funds used to transact in or through the accounts.<sup>18</sup> If these approaches are not available or desirable, the firm may be able to avail itself of one of the following exclusions or exemptions from the definition of "municipal advisor."

### **Exclusions and Exemptions from the Municipal Advisor Definition**

Member firms with municipal clients should understand the applicability and scope of each of the exclusions and exemptions from the municipal advisor definition in determining if they must register as municipal advisors. There are a number of statutory exclusions from the definition of municipal advisor.<sup>19</sup>

The Exchange Act excludes from the definition of municipal advisor “any investment adviser registered under the Investment Advisers Act of 1940, or persons associated with such investment advisers who are providing investment advice.”<sup>20</sup> As interpreted in Exchange Act Rule 15Ba1-1(d)(ii), the definition of municipal advisor excludes “[a]ny investment adviser registered under the Investment Advisers Act of 1940...or any person associated with such registered investment adviser to the extent that such registered investment adviser or such person is providing investment advice in such capacity.” Under Rule 15Ba1-1(d)(ii), a registered investment adviser could provide advice concerning the investment of proceeds in securities without registering as a municipal advisor because it would be “providing investment advice” in its capacity as a registered investment adviser.<sup>21</sup> Therefore, a FINRA member that is also registered with the SEC as an investment adviser may not be required to register as a municipal advisor, as long as the investment-related advice is provided by the registered investment adviser and not the broker-dealer.<sup>22</sup>

A member firm may also avail itself of the general information exclusion from the definition of advice if, for example, it provides a municipal client with general market and financial information, information regarding its currently available investments, or price quotes for investments available for purchase or sale in the market that meet criteria specified by a municipal client.<sup>23</sup> Whether this exclusion applies to a particular set of facts and circumstances is dependent on an analysis of whether a recommendation that constitutes advice occurred.<sup>24</sup>

If an independent registered municipal advisor (IRMA) is providing advice to the municipal client with respect to the same aspects of the municipal financial product or issuance of municipal securities as a member firm, then the member firm may be able to rely on an exemption from municipal advisor registration if it fulfills the exemption requirements, which are detailed in SEC guidance.<sup>25</sup> If a member firm provides advice outside the scope of the advisory services furnished by the IRMA, the exemption from the requirement to register as a municipal advisor would not apply.

A member firm that responds to a request for proposals or qualifications from a municipal client for services in connection with a municipal financial product or the issuance of municipal securities may be exempt from registration, provided the firm does not receive direct or indirect compensation for any advice provided in connection with the response.<sup>26</sup>

The Exchange Act provides an additional exclusion for a broker, dealer or municipal securities dealer if it is serving as an underwriter of a particular issuance of municipal securities to the extent that the broker, dealer or municipal securities dealer engages in activities that are *within the scope of an underwriting of such issuance of municipal securities*.<sup>27</sup> This exclusion only applies to advice provided by the underwriter within the scope of underwriting and generally includes advice with respect to the structure, timing, terms and other similar matters concerning that issuance of municipal securities. The underwriter exclusion *does not* apply to advice regarding: (i) investment strategies; (ii)

municipal derivatives; or (iii) advice otherwise identified by the SEC to be outside the scope of an underwriting.<sup>28</sup> The SEC stated in the Adopting Release that such advice generally is not within the scope of serving as an underwriter on an issuance of municipal securities and can raise issues that implicate the policy objectives of municipal advisor registration.<sup>29</sup>

### Overview of Supervisory Obligations

The “municipal advisor” definition, including the exclusions and exemptions from the definition, are nuanced. A lack of understanding of the breadth and scope of the relevant terms comprising the “municipal advisor” definition create additional risks of unintentionally engaging in municipal advisory activities that would require registration as a municipal advisor. The numerous contours of the municipal advisor regulatory scheme make it possible that without reasonably designed supervisory systems and controls, member firms operating in the general securities market<sup>30</sup> (e.g., by providing brokerage services to municipal clients purchasing non-municipal securities) may engage in unregistered municipal advisory activities.

In order to establish and maintain a supervisory system that is “reasonably designed to achieve compliance with applicable securities laws and regulations, and applicable FINRA Rules,” a firm engaging in investment-related activities with municipal clients, including recommending and selling non-municipal securities products to municipal clients, must have a supervisory system that takes into consideration the conduct that could trigger the requirement for the member firm to register as a municipal advisor and, as a result, become subject to additional regulatory obligations. This includes an assessment of what aspects of the firm’s business activities with municipal clients may pose the risk of triggering the municipal advisor registration requirements and establishing, maintaining, and enforcing corresponding written supervisory procedures and related controls.<sup>31</sup>

### Considerations for Developing Appropriate Supervisory Procedures and Related Controls

Each FINRA member should consider the unique risks of its business activities with municipal clients in establishing and maintaining a supervisory system and controls that account for the municipal advisor registration requirements.

- ▶ Firms should have reasonably designed systems and controls in place to identify: (i) new and existing municipal client accounts and (ii) the source of funds deposited into those municipal client accounts.<sup>32</sup> Firms should consider obtaining representations as to whether proceeds of municipal securities are contained in any accounts held at the firm.<sup>33</sup> If the account of any municipal client contains proceeds of municipal securities, including municipal bond proceeds or municipal escrow investments, the firm should, based on Commission guidance, consider whether it qualifies for an exclusion or exemption or it must register as a municipal advisor. For example, firms

- should determine whether the municipal client in question has retained an IRMA.<sup>34</sup> As with all exemptions and exclusions, firms are advised to take any specific steps required and keep appropriate documentation evidencing their rationale for relying on an exemption or exclusion.
- ▶ Firms may wish to tailor their new account forms to capture information related to municipal entity clients, such as sources of funds and whether an IRMA has been retained, and obtain additional documentation from these clients, as necessary. Because IRMA engagements may be limited in scope and timeframe, firms should ensure that they have a process to maintain current documentation relating to the IRMA's engagement.
  - ▶ If a firm is unable to determine whether a municipal client account contains bond proceeds or escrow investments, or whether the municipal client has engaged an IRMA to advise it, the firm should implement controls around the account to prevent inadvertently providing advice. If, for example, firms prohibit registered representatives from making recommendations to municipal client accounts, they must establish, maintain and enforce corresponding supervisory procedures and controls to ensure that prohibited advice was not given.<sup>35</sup>
  - ▶ Firms with municipal clients should familiarize themselves with, and train their registered representatives and principals regarding, SEC guidance on the activities requiring municipal advisor registration, including the SEC Office of Municipal Securities' FAQs.<sup>36</sup> In particular, firms should review the FAQs that address the contours of what constitutes "advice," as opposed to "general information," and "proceeds of municipal securities" for purposes of the "municipal advisor" definition and the specific criteria for firms seeking to rely on the exclusions and exemptions from registration.<sup>37</sup>
  - ▶ To the extent that a firm with municipal client accounts does not plan to register as a municipal advisor due to an exemption or exclusion, or does not plan to act as a municipal advisor with respect to all municipal clients, the firm should consider what steps it could take to mitigate its risks of engaging in unregistered municipal advisory activities. In addition to establishing and maintaining reasonably designed systems and controls for this purpose, firms should consider what written disclosures and disclaimers, if any, to provide to its municipal clients.<sup>38</sup>
  - ▶ To the extent that a firm plans to engage in any municipal advisory activities, the firm's procedures and controls should address the criteria used by the firm to determine whether it should register as a municipal advisor. Similarly, the firm's procedures and controls should address the criteria used to determine whether a particular registered representative is required to qualify as a municipal advisor representative or principal and the rationale for those criteria. Firms should also establish and maintain procedures to ensure firm registration and municipal advisor individual information submitted to the SEC and MSRB is kept current.<sup>39</sup>

## Endnotes

1. See Exchange Act Section 15B. *See also* Registration of Municipal Advisors, Exchange Act Release No. 70462 (September 20, 2013), 78 FR 67467 (November 12, 2013) (File No. S7-45-10) (Adopting Release). In addition to registration requirements, Exchange Act Section 15B imposes statutory fiduciary obligations on municipal advisors when providing advice to municipal entities. *See* Exchange Act Section 15B(c)(1).  
  
Furthermore, the MSRB has implemented a number of rules governing the conduct of municipal advisors. *See, e.g.*, MSRB Rules A-12 (Registration); G-2 (Standards of Professional Qualification); G-3 (Professional Qualification Requirements); G-5 (Disciplinary Actions by Appropriate Regulatory Agencies; Remedial Notices by Registered Securities Associations); G-8 (Books and Records to be Made by Brokers, Dealers, and Municipal Securities Dealers and Municipal Advisors); G-9 (Preservation of Records); G-10 (Investor and Municipal Advisory Client Education and Protection); G-17 (Conduct of Municipal Securities and Municipal Advisory Activities); G-20 (Gifts, Gratuities, Non-Cash Compensation and Expenses of Issuance); G-34 (CUSIP Numbers, New Issue, and Market Information Requirements); G-37 (Political Contributions and Prohibitions on Municipal Securities Business and Municipal Advisory Business); G-42 (Duties of Non-Solicitor Municipal Advisors); and G-44 (Supervisory and Compliance Obligations of Municipal Advisors).
2. *See* Adopting Release at 67469.
3. *See id.* *See also* [J.P. Morgan Settles SEC Charges in Jefferson County, Ala. Illegal Payments Scheme](#), SEC Press Release 2009-232 (Nov. 4, 2009).
4. *See* Exchange Act Section 15B(e)(4). *See also* Adopting Release at 67469.
5. *See* Adopting Release, *supra* note 1.
6. The Commission's Office of Municipal Securities has also issued [Registration of Municipal Advisors Frequently Asked Questions](#) (FAQs) (last updated Sept. 20, 2017).
7. The Commission has designated FINRA to conduct examinations of Commission-registered municipal advisors that are also FINRA members. *See* Adopting Release at 67581.
8. FINRA rules are not intended to be, and are not to be construed as, rules concerning transactions in municipal securities. *See* FINRA Rule 0150(b). In most instances, municipal entities and obligated persons invest bond proceeds in non-municipal products. If a municipal entity or obligated person were to invest in municipal securities, MSRB Rule G-27 would similarly govern the supervision of the broker-dealer involved in the transaction.
9. FINRA Rule 3110 (Supervision) imposes broad supervisory obligations on member firms. FINRA Rule 3110(a) (Supervisory System) requires each firm to have a supervisory system for the activities of its associated persons that is reasonably designed to achieve compliance with applicable securities laws and regulations and applicable FINRA rules, and sets forth the minimum requirements for a firm's supervisory system. *See* [Regulatory Notice 14-10](#) (March 2014) (noting that this standard, which requires that a firm's supervisory system be reasonably designed to achieve compliance with applicable federal securities laws and regulations and FINRA rules recognizes that a supervisory system cannot guarantee firm-wide compliance with all applicable laws and regulation and FINRA rules). *See also* [Notice to Members 99-45](#) (June 1999).  
  
FINRA Rule 3110(b) (Written Procedures) requires each firm to establish, maintain and enforce written procedures to supervise the types of business in which it engages, and the activities

of its associated persons, that are reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA rules.

10. FINRA Rule 3120 (Supervisory Control System) requires firms to establish, maintain and enforce a system of supervisory control policies and procedures that, among other things, test and verify that the member firm's supervisory procedures are reasonably designed with respect to the activities of the member and its associated persons as required by Rule 3110.
11. See Exchange Act Section 15B(e)(4) and Exchange Act Rule 15Ba1-1(d)(1)(i). A "municipal advisor" includes financial advisors, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, finders and swap advisors that engage in municipal advisory activities. It does not include a person that engages in specified excluded activities, as set forth in Exchange Act Section 15B(e)(4)(C) and Exchange Act Rule 15Ba1-1(d)(2).
12. See Adopting Release at 67479.
13. See Adopting Release at 67480.
14. FINRA suitability guidance has long provided that the determination of whether a "recommendation" has been made is an objective rather than subjective inquiry. See [Notice to Members 01-23](#) (April 2001). In guidance relating to FINRA Rule 2111 (Suitability), FINRA reiterated this prior guidance, stating that an important factor in this inquiry "is whether – given its content, context and manner of presentation – a particular communication from a firm or associated person to a customer reasonably would be viewed as a suggestion that the customer take action or refrain from taking action regarding a security or investment strategy." See [Regulatory Notice 11-02](#) (January 2011).

The MSRB has provided similar guidance for dealers in connection with MSRB Rule G-19. See [Suitability of Recommendations and Transactions](#).

15. See Exchange Act Section 15B(e)(5) and Exchange Act Rule 15Ba1-1(j).
16. Proceeds of municipal securities means "monies derived by a municipal entity from the sale of municipal securities, investment income derived from the investment or reinvestment of such monies, and any monies of a municipal entity or obligated person held in funds under legal documents for the municipal securities that are reasonably expected to be used as a security or a source of payment for the payment of the debt service on the municipal securities, including reserves, sinking funds, and pledging funds created for such purpose, and the investment income derived from the investment or reinvestment of monies in such funds. When such monies are spent to carry out the authorized purposes of municipal securities, they cease to be proceeds of municipal securities." See Exchange Act Rule 15Ba1-1(m)(1). Exchange Act Rule 15a1-1(m)(2) excludes from the definition monies derived from a municipal security issued by an education trust established by a State under Section 529(b) of the Internal Revenue Code (26 U.S.C. 529(b)) used for Section 529 college savings plans.

In addition, the Final Rules provide that in determining whether or not funds to be invested constitute proceeds of municipal securities, a person may rely on representations in writing made by a knowledgeable official of the municipal entity or obligated person whose funds are to be invested regarding the nature of such funds, provided that the person seeking to rely on such representations has a reasonable basis for such reliance. See Exchange Act Rule 15Ba1-1(m)(3).



17. See Exchange Act Section 15B(e)(3). See also Exchange Act Rule 15Ba1-1(b). Exchange Act Rule 15Ba1-1(h)(1) defines municipal escrow investments to mean “proceeds of municipal securities and any other funds of a municipal entity that are deposited in an escrow account to pay the principal of, premium, if any, and interest on one or more issues of municipal securities.” In addition, the Final Rules provide that in determining whether or not funds to be invested or reinvested constitute municipal escrow investments, a person may rely on representations in writing made by a knowledgeable official of the municipal entity or obligated person whose funds are to be invested or reinvested regarding the nature of such investments, provided that the person seeking to rely on such representations has a reasonable basis for such reliance. See also Exchange Act Rule 15Ba1-1(h)(2).
18. See FAQs at Section 11 (Investment Strategies and Proceeds of Municipal Securities).
19. Exclusions from the statutory definition of municipal advisor include: a broker, dealer, or municipal securities dealer serving as an underwriter (as defined in section 2(a)(11) of the Securities Act of 1933) (15 U.S.C. 77b(a)(11)), any investment adviser registered under the Investment Advisers Act of 1940, or persons associated with such investment advisers who are providing investment advice, any commodity trading advisor registered under the Commodity Exchange Act or persons associated with a commodity trading advisor who are providing advice related to swaps, attorneys offering legal advice or providing services that are of a traditional legal nature, or engineers providing engineering advice. See Exchange Act Section 15B(e)(4)(C). See also Exchange Act Rule 15Ba1-1(d)(2).
- In addition, the Final Rules exempt the following persons from the municipal advisor definition to the extent they are engaging in the specified activities: accountants; public officials and employees; banks; persons providing responses to requests for proposals or qualifications; swap dealers; any person engaging in municipal advisory activities where the municipal entity or obligated person is otherwise represented by an independent registered municipal advisor; persons that provide advice on certain investment strategies; or persons engaging in certain solicitations. See Exchange Act Rule 15Ba1-1(d)(3).
20. See Exchange Act Section 15B(e)(4)(C) and Exchange Act Rule 15Ba1-1(d)(2)(ii).
21. See Adopting Release at 67518 and FAQs at Section 4 (Registered Investment Adviser Exclusion).
22. However, note the limitations in [SEC Division of Investment Management Staff Legal Bulletin No. 11](#), which sets forth only very limited circumstances in which a municipal financial advisor can provide advice without registering as an investment adviser.
23. See FAQs at Section 1 (The Advice Standard: Question 1.1: The General Information Exclusion from Advice versus Recommendations).
24. See *id.*
25. See Exchange Act Rule 15Ba1-1(d)(3)(vi) and FAQs at Section 3: Independent Registered Municipal Advisor Exemption.
26. See Exchange Act Rule 15Ba1-1(d)(3)(iv) and FAQs at Section 2: Request for Proposals/Request for Qualifications Exemption.
27. See Exchange Act Section 15B(e)(4)(C) and Exchange Act Rule 15Ba1-1(d)(2)(i).

28. For example, structuring of refunding escrow cash flow requirements necessary to provide for the refunding and defeasance of an issue of municipal securities is within the scope of the underwriting exclusion, but the recommendation of and brokerage of particular municipal escrow investments is outside the scope of the underwriting exclusion. *See* Adopting Release at 67512 and 67513.
29. *See id.*
30. This issue may be more pronounced with firms that do not participate in public finance activities, but have municipal entities as customers of the firm.
31. Depending on the facts and circumstances, the MSRB's supervision rules may be inapplicable. MSRB Rule G-27 (Supervision) would not apply if the investments in question are non-municipal securities. MSRB Rule G-44 (Supervisory and Compliance Obligations of Municipal Advisors) would not apply if the firm is able to apply an appropriate exemption or exclusion from registration as a municipal advisor.
32. As set forth in the Commission's Office of Municipal Securities' FAQs, firms that rely on representations from municipal clients regarding the nature of funds deposited or invested will need a reasonable basis for relying on those representations and should consider instituting a "reasonable diligence process" to determine the nature of funds. *See* FAQs at Section 11 (Investment Strategies and Proceeds of Municipal Securities).
33. *See* FAQs at Section 1 (The Advice Standard: Effect of Disclosures and Disclaimers on Advice Analysis) and Section 11 (Investment Strategies and Proceeds of Municipal Securities).
34. *See* FAQs at Section 3 (Independent Registered Municipal Advisor Exemption); *see also* Exchange Act Rule 15Ba1-1(d)(3). Note, however, that this exemption applies only to the extent that the IRMA is assisting the municipal entity client in question with the "same aspects of a municipal financial product or an issuance of municipal securities." *See id.*
35. Firms may want to consider, for example, monitoring their order entry systems for "solicited" transactions in municipal entity accounts.
36. *See supra* note 6.
37. *See* FAQs at Section 1 (The Advice Standard) and Section 11 (Investment Strategies and Proceeds of Municipal Securities). *See also* FAQs at Section 3.1 (setting forth three criteria that require a firm seeking to rely on the "Independent Registered Municipal Advisor" exemption to take specific action to perfect the exemption), and at Section 5 (describing the conditions under which a firm may apply the underwriter exclusion).
38. For example, firms can evidence their intention to act as a municipal underwriter, rather than as a municipal advisor, by providing disclosures required under MSRB Rule G-17 (Conduct of Municipal Securities and Municipal Advisory Activities). *See* [Guidance on Implementation of Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities](#), July 2012. In addition, if a municipal advisor inadvertently engages in municipal advisory activities as described in MSRB Rule G-42.07, it must take the steps described in that provision as promptly as possible after the discovery of the provision of inadvertent advice, as well as conduct a prompt review of its written supervisory and compliance policies and procedures to ensure they are reasonably designed to prevent the provision of inadvertent advice.

39. In addition to registering as a municipal advisor by submitting Form MA to the SEC and Form A-12 to the MSRB, firms must complete and submit SEC Form MA-I with respect to each natural person who is a person associated with the municipal advisor (see Exchange Act Rule 15Ba1-2 and MSRB Rule A-12). Additionally, natural persons who engage in municipal advisor activities are required to qualify as municipal advisor representatives by passing the Municipal Advisor Representative Qualification Examination (see MSRB Rule G-3(d)). A natural person who is directly engaged in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons is required to qualify as a municipal advisor principal by passing the Municipal Advisor Principal Qualification Examination (see MSRB Rule G-3(e)).