SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-48169; File No. SR-MSRB-2003-04)

July 11, 2003

Self-Regulatory Organizations; Order Granting Approval of a Proposed Rule Change by the Municipal Securities Rulemaking Board To Require Dealers To Establish Anti-Money Laundering Compliance Programs

On May 22, 2003, the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities & Exchange Commission ("Commission" or "SEC"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("the Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change (File No. SR-MSRB-2003-04) (the "proposed rule change"). The MSRB's rule change establishes Rule G-41, on anti-money laundering compliance.

The Commission published the proposed rule change for notice and comment in the Federal Register on June 9, 2003.[3] The Commission received one comment letter on the proposed rule change.[4] This order approves the proposed rule change.

I. DESCRIPTION OF THE PROPOSED RULE CHANGE

The MSRB filed a proposed rule change, Rule G-41, on anti-money laundering compliance in response to the passage of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Release No. 34-47969 (June 3, 2003), 68 FR 34450.

4 Letter from Henry H. Hopkins, Chief legal Counsel, Regina M. Pizzonia, Associate Counsel, T. Rowe Price Associates, Inc. ("T. Rowe"), to Jonathan G. Katz, Secretary, Commission, dated June 27, 2003.

Act").[5] Section 352, of the USA PATRIOT Act, requires financial institutions, including broker/dealers, to establish and implement anti-money laundering compliance programs designed to ensure ongoing compliance with the requirements of the Bank Secrecy Act ("BSA"),[6] and the regulations promulgated thereunder, by April 24, 2002. The MSRB proposed Rule G-41 to ensure that all brokers, dealers and municipal securities dealers ("dealers")[7] that effect transactions in municipal securities, and in particular those that only effect transactions in municipal securities ("sole municipal dealers"), are aware of, and in compliance with, anti-money laundering program requirements. The proposed rule change requires that all dealers establish and implement anti-money laundering programs that are in compliance with the rules and regulations of either its registered securities association (i.e., NASD) or its appropriate banking regulator governing the establishment and maintenance of anti-money laundering programs.[8]

II. SUMMARY OF COMMENTS

The Commission received one comment letter relating to the proposed rule change. [9] The comment letter expresses its general support for the proposed rule, but requests at least a five-month delay for mandatory compliance with the rule's "Customer Identification Program"

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5 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 272 (2001).

6 31 U.S.C. 5311, et seq.

7 The term "dealer" is used herein as shorthand for "broker," "dealer" or "municipal securities dealer," as those terms are defined in the Act. The use of the term does not imply that the entity is necessarily taking a principal position in a municipal security.

8 See Release No 34-47969; see also Release No. 34-46739 (Oct. 29, 2002) 67 FR 67432 (Nov. 5, 2002); 31 CFR 103.120(b).

9 See T. Rowe letter.

("CIP").[10] According to the comment letter, T. Rowe believes that timely compliance with the CIP is "extremely burdensome" for broker and dealers involved with the distribution of college savings plans "to efficiently implement all of the operational and informational technology related changes the rule demands."[11] T. Rowe requested the delay to "minimize the disruption of services to our account holders" and that it believed that college savings plan, "pose a low threat as a money laundering vehicle".[12] For these and other reasons expressed in the letter, T. Rowe believes that a five-month compliance delay, specifically in relation to brokers and dealers who distribute the college saving plan, would not threaten the government's anti-terrorism goals.[13]

III. DISCUSSION AND COMMISSION FINDINGS

Section 19(b) of the Act[14] requires the Commission to approve the proposed rule change filed by the MSRB if the Commission finds that the proposed rule change consistent with the requirements of the Act and the rules and regulations thereunder. After careful review of the proposed rule change and the related comments, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder, which govern the MSRB.[15] The language of Section 15B(b)(2)(C) of the Act requires that the

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10 Id at 1.

11 Id at 2.

12 Id at 3.

13 Id at 2.

14 15 U.S.C. 78s(b).

15 Additionally, in approving this rule the Commission notes that it has considered the proposed rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

MSRB's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principals of trade, to foster cooperation and coordination with persons engaged in the regulating, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and in general, to protect investors and the public interest.[16] The commission believes that the MSRB's proposed rule change meets this statutory threshold.

Since the passage of the USA PATRIOT Act, the Commission has worked with self-regulatory organizations to coordinate rules requiring programs designed to help identify and prevent money laundering abuses that jeopardize the integrity of the U.S. capital markets. Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 ("AML Act"). Imposes certain obligations on financial institutions and the dealer community. Section 352 of the AML Act requires financial institutions to establish certain minimum anti-money laundering standards. Furthermore, Section 352 requires dealers to develop and implement a written anti-money laundering compliance program by April 24, 2002.[17] The Commission notes that the provisions of the USA PATRIOT Act are mandates of federal law. As a result, MSRB members should have already established anti-money laundering compliance programs.

The Commission believes that Rule G-41 will facilitate compliance with the federal government's anti-terrorism goals. The purpose of Rule G-41 is to ensure that all brokers,

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16 15 U.S.C. 780-4(b)(2)(C).

17 See 31 U.S.C. § 5318(h) (amended by Section 352 of the AML Act).

dealers and municipal securities dealers who effect transactions in municipal securities, especially sole municipal securities dealers, are aware of their obligations under Section 352 and know where to look for guidance concerning appropriate anti-money laundering programs. Moreover, the Commission notes that Rule G-41 will provide clarification to dealers and examiners of the rules and regulations with which dealers who effect transactions in municipal securities must comply concerning anti-money laundering compliance programs.

IV. CONCLUSION

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[18] that the proposed rule change (File No. SR-MSRB-2003-04) be and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[19]

Margaret H. McFarland

Deputy Secretary

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[18] 15 U.S.C. 78s(b)(2).

[19] 17 CFR 200.30-3(a)(12).