



# Taxable Bonds and Rule 131

## The Separate Security Issue— Exemption or Registration?

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# SEC Rule 131

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Section 3(a)(2) of the Securities Act of 1933 provides a securities exemption for both the municipal security of the conduit issuer and for the underlying obligation of the conduit borrower, subject to SEC Rule 131, 17 CFR §230.131.



Rule 131 defines a “separate security” as an obligation evidenced by governmental debt that is payable “by or for [an] industrial or commercial enterprise” from payments made under a “lease, sale, or loan arrangement.”

# Rule 131

## Exemptions

- (1) The bonds are payable from general revenues of a governmental unit, specified in Section 3(a)(2) having other resources which may be used for payment of the obligation;
- (2) The bonds relate to a public project or facility owned and operated by or on behalf of and under the control of a such a government unit; or
- (3) The bonds relate to a facility leased to and under the control of an industrial or commercial enterprise but is part of a public project which, as a whole, is owned by and under the general control of an industrial or commercial enterprise but is part of a public project which, as a whole, is owned by and under the general control of such a governmental unit, or an instrumentality thereof.

# Securities Act Exemptions From Rule 131

## Section 3(a)(2)

- Governmental Borrower
- “...or any security issued or guaranteed by any bank;...” (i.e., a letter of credit securing the bonds and borrower’s obligations)
- “...or any security which is an industrial development bond...the interest on which is excludable from gross income...”

## Section 3(a)(4)

- “Any security issued by a person organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, or reformatory purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any person, private stockholder, or individual,...” (i.e., a 501(c)(3) borrower)

# Securities Act Exemptions From Rule 131 *(continued)*



Rule 144A – Qualified Institutional Buyers  
and Institutional Accredited Investors



Rule 501 of Regulation D –  
Accredited Investors

# Conclusion

Taxable Bond + For  
Profit Borrower =  
Rule 131

Perfect an  
Exemption

# Questions?

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