



Municipal Securities Rulemaking Board



Annual Report 2019



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### ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) protects investors, state and local governments and other municipal entities and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its free Electronic Municipal Market Access (EMMA<sup>®</sup>) website, the official repository for information on virtually all municipal bonds. The MSRB also serves as an objective resource on the municipal market, conducts extensive education and outreach to market stakeholders, and provides market leadership on key issues. The MSRB is a Congressionally created, self-regulatory organization governed by a 21-member board of directors that has a majority of public members in addition to representatives of regulated entities. The MSRB is subject to oversight by the Securities and Exchange Commission.

## MESSAGE FROM THE CHAIR

Since 1975, the Municipal Securities Rulemaking Board (MSRB) has been entrusted to safeguard the integrity of the municipal securities market. But how we achieve this mission has changed over time as the market has evolved, new legislation has expanded our jurisdiction and technology has continued its rapid pace of change. Each year, members of the MSRB's Board of Directors contribute their perspectives as investors, issuers and practicing municipal securities dealers and municipal advisors, along with others with deep knowledge of this unique market.

We have long recognized that engaging with stakeholders outside the boardroom can inform our priorities and shed light on the impact of the MSRB's rules, resources and activities on market participants. In this spirit, Fiscal Year (FY) 2019 marked a renewed focus on stakeholder engagement at the MSRB, and our fellow Board members rose to the occasion by spending a collective total of 83 days in active, face-to-face dialogue with market participants. You saw us at regional town halls, industry conferences, compliance roundtables and visits to the offices of regulated firms, trade groups and other organizations.

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***Stakeholder feedback made each of the MSRB's 2019 initiatives more effective, efficient and impactful.***

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Stakeholder feedback made each of the MSRB's 2019 initiatives more effective, efficient and impactful. Your input informed which rules the MSRB prioritized for retrospective rule review, which topics warranted additional compliance assistance and which enhancements to our free Electronic Municipal Market Access (EMMA<sup>®</sup>) website to develop.

Our ability to advance these initiatives depends upon our stewardship of the industry fees that finance the majority of our operations. The Board in 2019 conducted an extensive review of the level of financial reserves needed by the MSRB to operate under all market conditions. The review resulted in a new construct for establishing reserve levels and several other steps that brought us closer to our goal of a more equitable and responsible allocation of fees among regulated entities. Our careful financial management is also evident in the Board's thorough analysis of the business case for migrating MSRB systems and data to the cloud, something we believe is critical to ensuring the long-term reliability, data quality and security of the MSRB's market transparency systems.

Finally, I wish on behalf of the Board to extend our deepest gratitude to Lynnette Kelly, who retired as President and CEO at the end of the 2019 fiscal year after 12 years of leading the MSRB. Steadfast to the mission of investor protection, she guided the organization through a highly transformative period and left us well-positioned for the challenges ahead.

Looking forward, a new standing committee of the Board will elevate our focus on stakeholder engagement as we embark on another year of transformation—regulatory, organizational and technological—grounded in our mission to protect municipal bond investors, issuers and the public interest. The Board also recognizes that how we govern ourselves as an organization is fundamental to our ability to effectively advance our mission, and that's why a special Board committee has been formed to reexamine our governance processes and explore opportunities for continuous improvement in FY 2020. We encourage your participation and welcome your input.



Ed Sisk, Board Chair



## 2020 VISION

### NEW LEADERSHIP

In the year ahead, the Board is conducting a broad, nationwide search for a new president and CEO to lead the organization into the future. A special committee of the Board has retained a leading executive search firm to coordinate the recruitment process and help identify the right candidate to advance the MSRB's mission to protect investors, issuers and the public interest.

## BOARD OF DIRECTORS 2019–2020

### OFFICERS

**Edward J. Sisk**  
*Chair*

**Manju S. Ganeriwala**  
*Vice Chair*

### PUBLIC REPRESENTATIVES



**Robert Clarke Brown**  
*Retired*  
Shaker Heights, Ohio



**Julia H. Cooper**  
*Director of Finance*  
City of San José  
San José, California



**Caroline Cruise**  
*Portfolio Manager*  
Loews Corporation  
New York, New York



**Joseph Darcy**  
*Retired*  
Belle Mead, New Jersey



**Ronald Dieckman**  
*Retired*  
Holly Springs, North  
Carolina



**William M. Fitzgerald, Sr.**  
*Founder and  
Managing Director,  
Chief Investment Officer*  
Fitzgerald Asset  
Management LLC  
Chicago, Illinois



**Manju S. Ganeriwala,  
Vice Chair**  
*Treasurer*  
Commonwealth of Virginia  
Richmond, Virginia



**Meredith Hathorn**  
*Managing Partner*  
Foley & Judell, L.L.P.  
Baton Rouge, Louisiana



**Carol Kostik**  
*Retired*  
New York, New York



**Thalia Meehan**  
*Retired*  
Watertown, Massachusetts



**Donna Simonetti**  
*Retired*  
Portland, Maine

## SECURITIES FIRM REPRESENTATIVES



**Francis ("Frank") Fairman**  
*Managing Director and Head of Public Finance*  
Piper Jaffray & Co.  
Minneapolis, Minnesota



**Beth Wolchock**  
*Managing Director and Head of Municipal Underwriting*  
Oppenheimer & Co. Inc.  
Stamford, Connecticut

## MUNICIPAL ADVISOR REPRESENTATIVES



**Jerry W. Ford**  
*President*  
Ford & Associates, Inc.  
Tampa, Florida



**Seema Mohanty**  
*Founder and Managing Director*  
Mohanty Gargiulo, LLC  
New York, New York



**Sonia Toledo**  
*Managing Director*  
Frasca & Associates, LLC  
New York, New York

## BANK REPRESENTATIVES



**Patrick Brett**  
*Managing Director and Head of Municipal Debt Capital Markets*  
Citi  
New York, New York



**Daniel Kiley**  
*Managing Director and Head of Municipal Fixed Income Trading*  
Wells Fargo  
St. Louis, Missouri



**Kemp J. Lewis**  
*Senior Managing Director*  
Raymond James & Associates, Inc.  
New York, New York



**Angelia Schmidt**  
*Managing Director and Head of Underwriting*  
UBS Financial Services  
New York, New York



**Edward J. Sisk, Chair**  
*Managing Director, Head of Public Finance*  
Bank of America  
Merrill Lynch  
New York, New York

## MSRB SENIOR MANAGEMENT

**Nanette D. Lawson**  
*Interim Chief Executive Officer and Chief Financial Officer and Treasurer*

**Mark T. Kim**  
*Executive Vice President and Chief Operating Officer*

**John A. Bagley**  
*Chief Market Structure Officer*

**Gail Marshall**  
*Chief Compliance Officer*

**Adam Cusson**  
*Chief Information Officer*

**Omer Ahmed**  
*Chief Risk Officer*



# Regulation and Compliance



In 2019, the MSRB placed renewed emphasis on ensuring its rules are clear and effective in protecting investors, issuers and the public interest. It explored opportunities to reduce unnecessary compliance burdens and deliver resources that enhance regulated entities' understanding of their obligations under MSRB rules.

## Retrospective Rule Review: Using Stakeholder Input to Modernize, Streamline and Harmonize

To keep pace with accelerating developments in technology and evolving market practices, the MSRB in 2019 formalized its process for revisiting its rules and interpretations to help ensure that they continue to achieve their intended purposes.

In some cases, a dated rule can simply be eliminated, such as the 1977 rule that required regulated entities to keep a hard copy of the MSRB Rule Book in

their offices. But the need to consider a rule change is not always so clear-cut. This is why the MSRB developed a set of criteria to help prioritize rules for review and has used the public comment process and other means to engage with stakeholders and consider a broad range of perspectives before proceeding with a proposed rule change.

In light of stakeholder feedback, in 2019 the MSRB chose to review a relatively new provision of Rule G-34 related to municipal advisors applying for CUSIP numbers on competitive transactions. Stakeholder feedback also prompted the MSRB to streamline

its 2012 interpretive guidance on underwriter disclosures to issuers under Rule G-17 on fair dealing to focus more narrowly on the risks and conflicts most relevant to a given transaction.

Following multiple rounds of public comment regarding its rules for primary market offering practices that began in 2017, the MSRB amended Rules G-11 and G-32 in 2019 to improve regulatory transparency and equalize information dissemination in primary offerings, including the collection of additional data points from underwriters for primary offerings through MSRB Form G-32.

## RETROSPECTIVE RULE REVIEW CRITERIA

When prioritizing rules for review, the MSRB considers whether:



The rule is clear and understandable or a subject of common stakeholder questions.



There is a continued need for the rule.



The age of the rule and the length of time since it was reviewed holistically is significant.



The rule is consistent with market practices and/or consistent with the relevant rules of other regulators or other requirements for the relevant regulated entity.



The rule has a substantial body of historical interpretive guidance.



The level of relevant enforcement activity is significant.



Commenters have previously expressed (whether in a formal comment letter or otherwise) a desire for the MSRB to reconsider a particular rule requirement.



The benefits of the rule are commensurate with its burdens.

## REGULATION AND COMPLIANCE BY THE NUMBERS



**50**

Comment Letters  
Received and  
Considered



**10**

New Compliance  
Resources  
Produced



**2,200+**

Subscribers to  
Compliance Tip of  
the Week Emails

### Volunteers Help Develop New Examination for Municipal Advisor Principals

The MSRB's professional qualifications program relies on the expertise of industry professionals who serve on its advisory committee and develop the content for qualifying examinations for dealers and municipal advisors. In 2019, the committee rolled out a pilot examination to qualify individuals who are directly engaged in the management, direction or supervision of municipal advisory activities. More than 600 volunteers participated in a pilot examination to refine the question bank and set a passing score for the new Municipal Advisor Principal Qualification Examination (Series 54). The Series 54 exam builds on the current Series 50 exam for all municipal advisor professionals. Municipal advisor principals have until November 12, 2020 to take and pass the exam if they did not already pass the pilot exam.

### Outside Perspectives on Making Compliance Work

Guided by the recommendations and insights of its Compliance Advisory Group, the MSRB continued its sustained emphasis on providing compliance assistance to regulated entities through tools and resources. With the implementation of new MSRB Rule G-40, which created advertising standards for municipal advisors, the MSRB produced two compliance workshops, a free MuniEdPro® online learning course, three compliance resources and interpretive guidance on the use of social media to support municipal advisors' understanding of the new rule.

The MSRB's compliance support efforts also included clarification of existing guidance on its best-execution rule, which requires dealers to seek the most favorable terms reasonably available for retail customer transactions in municipal securities. The updated guidance specifically addresses the practice of dealers posting a solicitation for bids simultaneously through multiple trading platforms or broker's brokers as it relates to dealers' best-execution obligations.

For the fourth year, the MSRB joined with the SEC and FINRA to host a free Compliance Outreach Program for Municipal Advisors. The 2019 event in San Francisco provided an opportunity for more than 300 municipal advisor professionals to discuss regulatory and compliance issues with regulators.

## 2020 VISION

### REGULATION FOR THE FUTURE

Retrospective rule review and compliance support will continue to top the MSRB priority list in 2020. This includes assessing the impact on the MSRB Rule Book in light of the SEC's adoption of Regulation Best Interest, particularly rules related to suitability and recommendations. The MSRB also plans to re-examine Rule G-27, which outlines requirements for a dealer's supervision of personnel, to consider further realignment with FINRA's supervision rules. The MSRB intends to take a fresh look at Rule G-42, on the duties of municipal advisors, to revisit requirements related to the disclosure of disciplinary events.





# Technology and Data

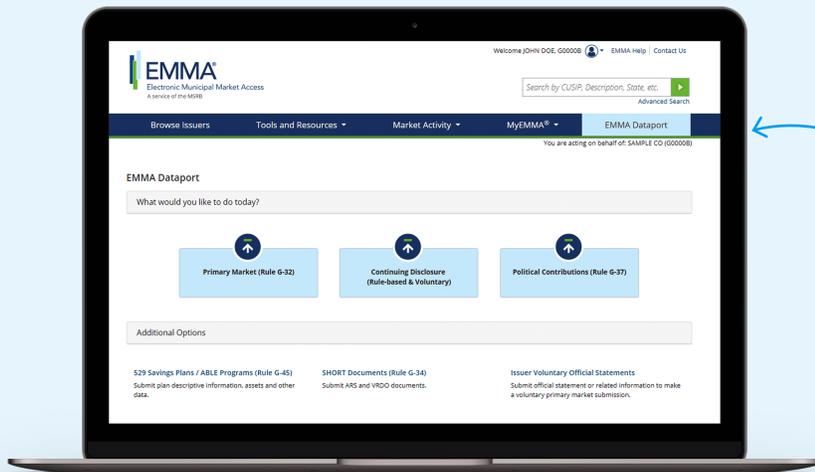
As the free, centralized source of municipal market data and disclosures, the MSRB's EMMA website has become a critical tool in serving the information needs of investors, issuers and all market participants. Feedback from users helped drive several enhancements to EMMA in 2019 and informed the MSRB's decision to think more strategically about market data and migrate its transparency systems to the cloud.

## Most Requested EMMA Feature: Smarter, More Powerful Search Capabilities

The most frequently mentioned request from EMMA's users is to provide a more powerful search engine. In May 2019, the MSRB rolled out an enhanced Quick Search functionality aimed at reducing the time it takes for users to access data and disclosures by introducing predictive searching for issuer names and issue descriptions. User feedback and focus groups continue to help refine EMMA's search algorithm.

*The MSRB hosted a free webinar to demonstrate EMMA's new Quick Search feature and the detailed search filters available in Advanced Search. New and frequent users learned tips for tailoring searches to cull through millions of continuing disclosure documents and municipal securities transactions available for free on EMMA.*

The screenshot displays the EMMA website's search interface. At the top, the EMMA logo is visible. A search bar contains the text 'MAYO CLINIC', with a dropdown menu showing suggestions: 'ILLINOIS FINANCE AUTHORITY', 'INDIANA FINANCE AUTHORITY', 'TRINITY HEALTH', and 'PUBLIC FINANCE AUTHORITY'. Below the search bar is a map of the United States with state abbreviations, and a button that says 'Click on a state to start your search'. To the right, a dark blue box titled 'MOST-SEARCHED TERMS ON ENHANCED EMMA QUICK SEARCH' for 'May-September 2019' lists two categories: 'Evaluate' (Access New Issue Calendar and other market tools.) and 'Monitor' (Sign up for MyEMMA).



*A redesigned menu bar allows users to seamlessly navigate between EMMA Dataport and all the features on the EMMA website.*

## Upgrading the User Experience for Issuers

In 2019, the MSRB also addressed the needs of issuers, obligated persons and their agents, who rely on the free EMMA system to meet their disclosure obligations and communicate with investors. The MSRB modified EMMA Dataport—the user interface used by issuers and obligated persons to file disclosures—and the EMMA website to accept and display two new event disclosures to coincide with amendments to SEC Rule 15c2-12, which took effect in February 2019.

Meanwhile, informed by user focus groups, usability studies and a survey of more than 750 submitters, the MSRB implemented a larger set of enhancements to EMMA Dataport, including a more user-friendly disclosure submission process. Issuers may now download exportable reports of past submissions and seamlessly navigate between EMMA Dataport and the EMMA website. By enhancing the

submission process for the more than 150,000 continuing disclosure filings that EMMA Dataport receives annually, the MSRB aimed to improve the quality of indexing to help market participants easily locate and access disclosure documents on the EMMA website.

The MSRB also enhanced the process for creating and managing a free customized issuer homepage on EMMA to enable issuers to take more control over how their information is presented to investors. Issuers may now provide multiple links to websites that contain more information accessible by market participants, as well as contact information for the bond trustee or others. Following these enhancements, the number of state and local government issuers who have leveraged EMMA’s free issuer homepage functionality has almost doubled.

## HOW WE LISTENED TO EMMA USERS



## Putting the Data in Context

In recent years, the MSRB has sought to enhance EMMA with the integration of market-wide information to help investors and others evaluate broader market trends, such as market statistics that provide a dynamic view of trade patterns and trade activity at the state level.

The EMMA website also provides free public access to municipal market yield curves and indices from third-party providers. In 2019, the MSRB expanded the availability of yield curves and indices on the EMMA website by adding the U.S. Treasury yield curve to the existing third-party market indicators on EMMA. This enables EMMA users to compare tax-exempt benchmarks with Treasury rates.

Additionally, the MSRB considered potential new features to emphasize the timing of issuers' annual financial disclosures on EMMA. The timing of disclosures is often cited as an important factor in their usefulness to investors and other market participants. The MSRB believes that increasing the prominence of information displayed on the EMMA website will improve the understanding of investors and market participants, particularly retail investors who rely on the free public EMMA website to make informed decisions about buying and selling municipal securities.

## THE BIG DEAL ABOUT BIG DATA



Two MSRB reports in 2019 offered an indication of the value of data-driven analysis to both the MSRB and market stakeholders.

In *Mark-up Disclosure and Trading in the Municipal Bond Market*, MSRB market structure experts examine the impact of MSRB mark-up regulations, using data-driven analysis to measure whether there were any unintended consequences for municipal bond market trading activities.

In *Dealer Participation and Concentration in Municipal Securities Trading*, the MSRB analyzes changes and trends in the customer trading activity of municipal securities dealers, providing unique insights in the municipal securities market.

Access MSRB data analyses in the "Policy and Analysis" section of [MSRB.org](https://www.msrb.org).

## Reaching for the Cloud

Over the course of 2019, the MSRB continued its progress on strategic initiatives to leverage cloud computing and big data to enhance understanding of market data and to boost analytical capabilities. It conducted a feasibility assessment of a potential migration of MSRB market transparency systems to the cloud, as well as an analysis of unstructured market data to evaluate the potential value to market participants. The MSRB also established a new Visiting Scholar position to build on its longstanding support of academic research using MSRB data to shed light on trading behavior and other market practices.

The value that cloud computing will bring to EMMA was apparent in a small-scale pilot program that the MSRB conducted using Amazon Web Services. The program demonstrated how the unstructured data contained in the thousands of primary market disclosures the MSRB receives each month could be unlocked. Machine learning and artificial intelligence technology have tremendous potential to enable keyword searches that span across all the documents in the EMMA database. While the prototype was limited in its scope and capability, it did offer a glimpse into how cloud computing could enhance the accessibility of disclosure information on the EMMA website.



“Going to the Board and demonstrating this search capability that we came up with in 12 weeks was a big eye-opener in terms of what could possibly be done once we made that transition.”

*Karl Eiholzer, Data Management and Analytics, MSRB*

## 2020 VISION

### THE JOURNEY INTO THE CLOUD

Following on the research and business case it developed over the past two years, the MSRB is embarking on an enterprise-scale migration of its information systems and data to the cloud. The project, which will be the biggest technological investment since the launch of EMMA a decade ago, will enable the organization to realize the exciting potential of the cloud, especially when it comes to leveraging big data analytics and strengthening EMMA’s role as the central information source for the municipal securities industry. In addition to gaining efficiencies and freeing up resources by eliminating physical data centers, being in the cloud will ensure the long-term reliability, data quality and security of the MSRB’s market transparency systems.



# Outreach and Education



As a self-regulatory organization, outreach and engagement with market stakeholders have always been central to the MSRB's core work of setting rules, promoting transparency and educating market participants. Over the course of the year, Board members and staff participated in several MSRB-organized town hall meetings and compliance roundtables, as well as industry conferences, visits to securities firms, and meetings with trade groups and other organizations in conjunction with Board meetings.

Also in 2019, the MSRB took additional steps to broaden access to education for all participants, leveraging new formats such as podcasting and committing to making its suite of online learning courses available to learners at no cost.

## STAKEHOLDER ENGAGEMENT BY THE NUMBERS



**76**

appearances at events and industry conferences reaching an estimated **11,800** market participants



**12**

free webinars for more than **6,000** participants



**1,578**

CPE credits awarded



**83**

days when Board members met with market participants

### MuniEdPro®: Connecting Professionals with Continuing Education

Since 2016, the MSRB has worked with a diverse group of industry practitioners who volunteered their time to develop more than 20 interactive courses that illustrate how to apply MSRB rules to real-world municipal market scenarios. The MSRB's MuniEdPro® course catalog features in-depth explorations of disclosure requirements, pricing and other market activities. In April 2019, the MSRB took a major step toward expanding access to high-quality continuing education by making all MuniEdPro® courses available free of charge. The MSRB is continuing to refresh the course catalog to meet the educational needs of dealers, municipal advisors and other market participants.



## Now Recording: MSRB Podcast

In 2019, MSRB subject-matter experts took to the airwaves in a series of podcast episodes to discuss municipal securities regulation, market data and emerging market topics. While targeted primarily at market participants, the MSRB Podcast also seeks to distill the complexities and unique characteristics of the municipal market for any listener. More than 3,500 listeners downloaded episodes that included a conversation about municipal market yield curves, an overview of the impact of tax reform on municipal bond demand and a deep dive into preparing for a compliance examination as a municipal advisor.



The MSRB's free MuniEdPro® platform in 2019 received a Brandon Hall Group Excellence in Technology Award for best advance in learning management technology for compliance training. A panel of independent industry experts evaluated and recognized MuniEdPro® for its breakthrough innovations, differentiators from competing products and the value it delivers to municipal securities dealers and municipal advisors.

## Helping Market Participants Prepare for New Disclosure Requirements

Following amendments to SEC Rule 15c2-12 establishing two new disclosure requirements for issuers, the MSRB actively engaged with issuers and other market participants as it developed changes to the EMMA website to accept and display the new disclosures. To further support stakeholder awareness and understanding of both the rule and technical changes, the MSRB worked in coordination with the SEC and industry groups to host two educational webinars. The MSRB also updated its existing educational resources on continuing disclosure and published a new educational resource, *10 Things to Know: Disclosing Financial Obligation Information*. The MSRB also contributed an article for publication that was carried in several municipal league magazines around the country to support broader awareness of the changes to the disclosure regulatory framework and EMMA.

## 2020 VISION

### FORMALIZING STAKEHOLDER ENGAGEMENT

In recognition of the importance of stakeholder input to the work of the MSRB, the Board created a standing Stakeholder Engagement Committee. The committee aims to institutionalize efforts to ensure that the Board's strategic discussions and decisions continue to benefit from the diversity of perspectives across the municipal securities market.



## Corporate Citizenship

Located in downtown Washington, DC, the MSRB and its approximately 120 employees are committed to helping the community through volunteer and fundraising initiatives. The MSRB also leverages its in-house knowledge and networks to partner with organizations that help encourage young people to consider careers in public finance.

### Municipal Finance Day

For the eighth year, the MSRB joined the Municipal Forum of New York to organize Municipal Finance Day in Washington for participants in the Urban Leadership Fellows Program, which enables New York City youth to explore careers in finance. Fellows enjoy a paid summer internship at a financial or finance-related company and journey to the nation's capital on Municipal Finance Day to meet with regulators, policymakers and elected officials and

gain a better understanding of the policy implications facing the municipal securities market.

### Community Giving

The MSRB supports a variety of community organizations through the activities of its employee council. Over the course of 2019, the MSRB staff adopted families in need during the holiday season and helped raise money for Shepherd's Table, a

Washington-area organization that provides meals, medical support, clothing and other assistance to homeless people. The staff also held a pet food drive to help struggling families keep the pets they love, collected cereal box tops for Thomson Elementary School in Washington to buy school supplies and books for the students, and participated in the local Cycle for Survival event to support research at Memorial Sloan Kettering Cancer Center to help eliminate rare cancers.

## AFTER MORE THAN A DECADE OF LEADERSHIP, LYNNETTE KELLY RETIRES FROM THE MSRB



Lynnette Kelly, who retired as President and CEO of the MSRB at the end of the 2019 fiscal year, leaves a tremendous legacy after 12 years of service to the organization and the \$4 trillion municipal securities market.

"It has been an honor to lead a staff of dedicated, mission-driven colleagues, and I know the MSRB is poised to continue to advance our mandate of ensuring a fair and efficient market," she said in a message to market participants upon her retirement.

Since 2007, Kelly led the MSRB through a transformative period that included the launch of the EMMA website, which has greatly elevated the level of transparency in the municipal securities market, and the creation of state-of-the-art educational resources to equip investors and issuers to make informed decisions. She also directed the development and implementation of a new regulatory framework for municipal advisors after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

## FINANCIAL STEWARDSHIP

The MSRB is committed to transparency and responsible stewardship of financial resources. In addition to the annual publication of audited financial statements, financial highlights and the availability of key financial policies on our website, the MSRB publishes its annual budget at the beginning of the fiscal year. Taken together, this information provides an opportunity for stakeholders and municipal market participants to better understand the organization's finances and how we manage resources in support of our mission. The MSRB must be positioned financially to carry out its statutory mission under all market conditions, and the annual budget and audited financial statements reflect that objective. In 2019, the MSRB continued its commitment to ensuring that financial reserve levels are appropriate and advancing its goals of fair and equitable fees and strict management of expenses, among other priorities, as described below.

The Board agreed in 2018 to temporarily reduce the assessment rates for underwriting, transaction and technology fees related to market activity during the last three months of calendar year 2018, which is the first quarter of fiscal year 2019. As part of its 2019 priorities, the Board evaluated the organization's reserve target and implemented a new construct for setting the level of financial reserves needed to mitigate fluctuations in the MSRB's revenue stream, which is primarily market-driven, and provide a backstop for funding services essential to the integrity of the market. The new reserves construct precipitated a decision by the Board to reduce target reserve levels and also take prompt action to temporarily reduce fees for an additional six months for dealers, whose market-based fees have historically exceeded their respective budgeted amounts, thereby directly contributing to the excess reserves position. As a result, the assessment rates for underwriting, transaction and technology fees related to market activity were temporarily reduced by approximately one-third for a total of nine months in 2019.

Additionally in 2019, following a thorough assessment of the feasibility and business case, the Board determined to undertake an enterprise-scale migration of MSRB market transparency systems and data to the cloud to advance the MSRB's mission and establish a foundation for the organization's future technology infrastructure. In anticipation of this potential transition, in 2018 the Board had designated \$5 million of reserves for this strategic investment. The migration to the cloud began in 2019 and is expected to continue through fiscal year 2021. To fully fund the cloud migration and related operational and governance transformations, the Board in 2019 designated an additional \$3.5 million, bringing the total potential strategic investment of excess reserves to \$8.5 million.

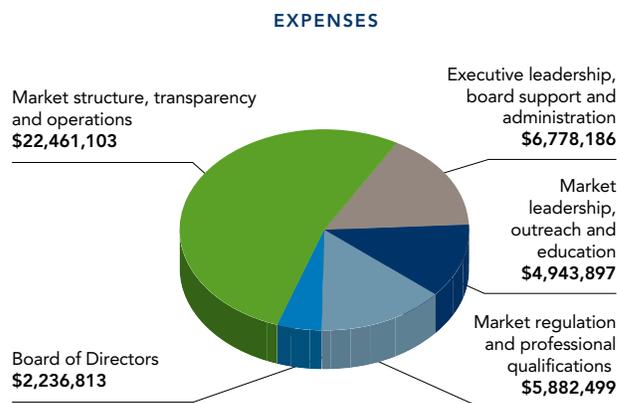
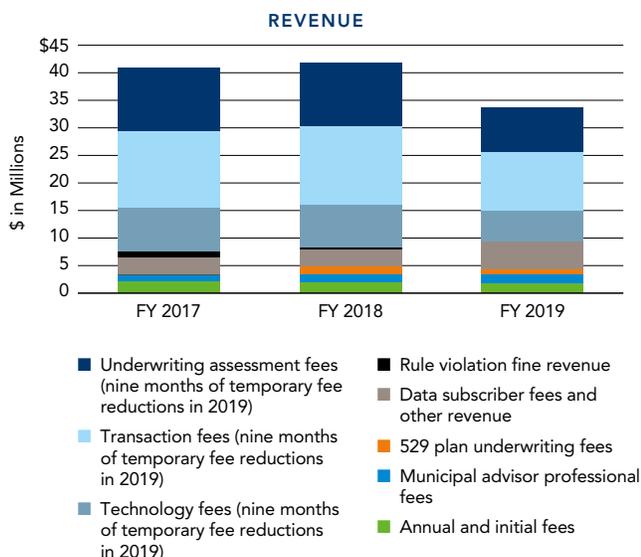
Ensuring fair and equitable fees remains top-of-mind for the Board and staff, and fees are a regular source of discussion and evaluation as we seek to balance resource needs and funding sources. In 2019, the Board determined it was appropriate to increase the per professional fees paid by municipal advisors. The revised fee will be phased in over two years, with the annual per professional fee increasing to \$750 from \$500 in FY 2020 and to \$1,000 in FY 2021. The MSRB also continues to evaluate alternative revenue sources, including its data subscriptions, as part of its effort to diversify funding sources and promote the organization's financial sustainability. The MSRB remains committed to public accountability and demonstrating the alignment between its financial resources, mission and strategic goals.

Sincerely,



Nanette D. Lawson  
*Interim Chief Executive Officer and Chief  
Financial Officer and Treasurer*

# FINANCIAL HIGHLIGHTS



September 30	2019	2018	2017
<b>Statements of Financial Position</b>			
Total Assets	\$ 80,231,181	\$ 88,567,608	\$ 84,511,116
Total Liabilities	9,943,197	9,752,147	10,074,504
Total Net Assets — Without Restrictions	70,287,984	78,815,461	74,436,612
<b>Statements of Activities</b>			
<b>Revenue:</b>			
Underwriting assessment fees (nine months of temporary fee reductions in 2019)	8,079,274	11,567,664	11,629,582
Transaction fees (nine months of temporary fee reductions in 2019)	10,817,184	14,192,475	13,889,042
Technology fees (nine months of temporary fee reductions in 2019)	5,442,066	7,733,728	7,950,238
Annual and initial fees	1,787,000	1,883,586	2,024,234
Municipal advisor professional fees	1,564,500	1,578,100	1,196,700
529 plan underwriting fees	991,399	1,292,504	–
Data subscriber fees and other revenue	4,942,415	3,191,304	3,270,845
Rule violation fine revenue	151,183	317,792	994,738
Total Revenue	33,775,021	41,757,153	40,955,379
<b>Expenses</b>			
	42,302,498	37,378,304	35,833,571
<b>Change in Net Assets</b>	<b>\$ (8,527,477)</b>	<b>\$ 4,378,849</b>	<b>\$ 5,121,808</b>
<b>Statements of Cash Flows</b>			
Cash (Used) Provided from Operating Activities	<u>\$ (3,890,127)</u>	<u>\$ 8,628,701</u>	<u>\$ 9,452,952</u>
Cash Investment in Technology Systems and Other Fixed Assets	\$ 2,102,314	\$ 4,428,947	\$ 5,132,018



## Report of Independent Auditors

To the Board of Directors of  
The Municipal Securities Rulemaking Board

We have audited the accompanying financial statements of the Municipal Securities Rulemaking Board (the MSRB), which comprise the statements of financial position as of September 30, 2019 and 2018 and the related statements of activities, functional expenses and of cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the MSRB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MSRB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MSRB as of September 30, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the MSRB changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "PricewaterhouseCoopers" followed by a stylized flourish.

McLean, Virginia  
December 18, 2019

.....  
PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102  
T: 703 918 3000, [www.pwc.com](http://www.pwc.com)

# FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION

<i>As of September 30, 2019 and 2018</i>	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,328,752	\$ 1,675,923
Accounts receivable — net	4,637,378	5,483,311
Prepaid and other assets	1,349,573	1,459,687
Accrued interest receivable	250,076	261,524
Investments	61,124,307	65,768,775
Fixed assets — net	11,541,095	13,918,388
<b>TOTAL ASSETS</b>	<b>\$80,231,181</b>	<b>\$88,567,608</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	\$ 2,541,952	\$ 1,982,828
Accrued vacation payable	756,202	788,514
Deferred revenue	243,474	304,454
Deferred rent	6,401,569	6,676,351
Total liabilities	9,943,197	9,752,147
Undesignated net assets	64,421,963	71,827,402
Designated, cloud fund	5,780,651	4,980,464
Designated, technology renewal fund	85,370	2,007,595
Net assets — without restrictions	70,287,984	78,815,461
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$80,231,181</b>	<b>\$88,567,608</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF ACTIVITIES

<i>For the years ended September 30, 2019 and 2018</i>	2019	2018
<b>REVENUE:</b>		
Underwriting assessment fees	\$ 8,079,274	\$11,567,664
Transaction fees	10,817,184	14,192,475
Technology fees	5,442,066	7,733,728
Annual and initial fees	1,787,000	1,883,586
Data subscriber fees	2,235,257	2,164,411
Municipal advisor professional fees	1,564,500	1,578,100
529 plan underwriting fees	991,399	1,292,504
Rule violation fine revenue	151,183	317,792
Other income	2,707,158	1,026,893
<b>Total Revenue</b>	<b>33,775,021</b>	<b>41,757,153</b>
<b>EXPENSES:</b>		
Market regulation and professional qualifications	5,882,499	5,612,667
Market structure, transparency and operations	22,461,103	18,910,025
Market leadership, outreach and education	4,943,897	4,555,592
Board of Directors	2,236,813	1,927,517
Executive leadership, board support and administration	6,778,186	6,372,503
<b>Total Expenses</b>	<b>42,302,498</b>	<b>37,378,304</b>
<b>CHANGE IN NET ASSETS</b>	<b>(8,527,477)</b>	<b>4,378,849</b>
<b>NET ASSETS — Beginning of year</b>	<b>78,815,461</b>	<b>74,436,612</b>
<b>NET ASSETS — End of year</b>	<b>\$70,287,984</b>	<b>\$78,815,461</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF FUNCTIONAL EXPENSES

Year ending September 30, 2019

	Program Activities				Supporting Activities		
	Market Regulation and Professional Qualifications	Market Structure, Transparency and Operations	Market Leadership, Outreach and Education	Program Totals	Board of Directors	Executive Leadership, Board Support and Administration	Total Expenses
Compensation of current officers, directors, other salaries and employee benefits	\$4,314,202	\$ 9,416,502	\$2,969,372	\$16,700,076	\$1,224,564	\$5,033,319	\$22,957,959
Fees for services	327,731	4,599,611	675,940	5,603,282	430,651	374,136	6,408,069
Information technology	115,171	2,000,550	140,484	2,256,205	21,691	156,263	2,434,159
Occupancy	485,853	1,071,789	260,159	1,817,801	-	544,948	2,362,749
Travel and meeting	240,247	75,944	242,918	559,109	435,563	107,953	1,102,625
Depreciation and amortization	161,676	3,513,598	446,728	4,122,002	-	181,340	4,303,342
Insurance	29,823	64,690	15,969	110,482	110,918	33,450	254,850
Data and information services	20,429	1,256,437	5,897	1,282,763	-	-	1,282,763
Dues, registration and training	28,857	54,838	22,177	105,872	-	47,934	153,806
Property and other taxes	40,875	217,877	27,701	286,453	1,339	57,349	345,141
Office and other expenses	117,635	189,267	136,552	443,454	12,087	241,494	697,035
<b>Total Expenses</b>	<b>\$5,882,499</b>	<b>\$22,461,103</b>	<b>\$4,943,897</b>	<b>\$33,287,499</b>	<b>\$2,236,813</b>	<b>\$6,778,186</b>	<b>\$42,302,498</b>

Year ending September 30, 2018

	Program Activities				Supporting Activities		
	Market Regulation and Professional Qualifications	Market Structure, Transparency and Operations	Market Leadership, Outreach and Education	Program Totals	Board of Directors	Executive Leadership, Board Support and Administration	Total Expenses
Compensation of current officers, directors, other salaries and employee benefits	\$4,059,541	\$ 8,770,091	\$2,547,960	\$15,377,592	\$1,220,827	\$4,600,796	\$21,199,215
Fees for services	270,700	1,637,741	770,856	2,679,297	238,988	402,607	3,320,892
Information technology	97,479	1,975,840	155,246	2,228,565	20,950	121,655	2,371,170
Occupancy	458,470	1,115,956	285,790	1,860,216	-	505,059	2,365,275
Travel and meeting	244,528	80,995	160,473	485,996	319,801	109,410	915,207
Depreciation and amortization	236,146	3,277,410	385,195	3,898,751	-	258,280	4,157,031
Insurance	27,276	61,973	17,002	106,251	117,689	29,832	253,772
Data and information services	20,448	1,357,665	5,130	1,383,243	-	-	1,383,243
Dues, registration and training	39,853	51,725	17,091	108,669	-	76,247	184,916
Property and other taxes	29,814	293,270	30,287	353,371	18	41,760	395,149
Office and other expenses	128,412	287,359	180,562	596,333	9,244	226,857	832,434
<b>Total Expenses</b>	<b>\$5,612,667</b>	<b>\$18,910,025</b>	<b>\$4,555,592</b>	<b>\$29,078,284</b>	<b>\$1,927,517</b>	<b>\$6,372,503</b>	<b>\$37,378,304</b>

## STATEMENTS OF CASH FLOWS

For the years ended September 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$(8,527,477)	\$4,378,849
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,303,342	4,157,031
Net loss on disposal of long-lived assets	3,805	67,070
Unrealized (gain) loss on investments	(908,331)	343,748
Net (accretion) amortization of investment premiums and discounts	(92,459)	85,679
Realized gain on investments	(12)	(6,286)
Bad debt expense	46,249	-
Changes in assets and liabilities:		
Accounts receivable	799,684	112,829
Prepaid and other assets	110,114	979
Accrued interest receivable	11,448	11,320
Accounts payable and accrued liabilities	731,584	(154,503)
Accrued vacation payable	(32,312)	82,785
Deferred revenue	(60,980)	53,806
Deferred compensation	-	(270,248)
Deferred rent	(274,782)	(234,358)
<b>Net cash provided (used) by operating activities</b>	<b>(3,890,127)</b>	<b>8,628,701</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of long-lived assets	(2,102,314)	(4,428,947)
Purchases of investments	(25,438,026)	(28,275,469)
Maturities of investments	31,083,296	23,887,296
<b>Net cash provided (used) in investing activities</b>	<b>3,542,956</b>	<b>(8,817,120)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(347,171)</b>	<b>(188,419)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b>1,675,923</b>	<b>1,864,342</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$ 1,328,752</b>	<b>\$1,675,923</b>
<b>SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>		
Accrual of office equipment and software purchases	\$ 27,701	\$ 200,161
Like-kind equipment exchange	-	\$ 3,500

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

## 1. NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (MSRB) was created by Congress under the 1975 Amendments to the Securities Exchange Act of 1934, and the authority of the MSRB was expanded by further amendments to the Exchange Act under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (as amended, the Exchange Act). The MSRB is incorporated as a not-for-profit, non-stock corporation pursuant to the laws of the Commonwealth of Virginia. Under the Exchange Act, the MSRB is a self-regulatory organization (SRO) with authority to adopt rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers, and the municipal advisory activities of municipal advisors (collectively referred to as "regulated entities"), to promote fair and efficient markets and to protect investors, municipal entities, obligated persons and the public interest. The MSRB collects and disseminates market information, operates the Electronic Municipal Market Access (EMMA<sup>®</sup>) website to promote transparency and widespread access to information, and also engages in significant education, outreach and market leadership activities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The MSRB's financial statements are prepared using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (GAAP). The MSRB is required to report the following net asset classifications:

- Net assets without restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the MSRB. These net assets may be used at the discretion of MSRB's management and the Board.
- Net assets with restrictions: Net assets subject to stipulations imposed by donors and grantors. The MSRB does not have donor restricted net assets.

**Fair Value Measurement** — The MSRB measures fair value in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*, which provides a common definition of fair value for GAAP and International Financial Reporting Standards (IFRS), establishes a framework for measuring fair value, provides a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements.

**Cash Equivalents** — Highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

Included in cash equivalents are short term money market mutual funds fully invested in securities backed by the full faith and credit of the United States (U.S.) Government with a total fair market value of approximately \$.9 million and \$.6 million at September 30, 2019 and 2018, respectively.

**Investments** — Investments are stated at fair value. Investments consist of U.S. Treasury notes, obligations of U.S. Government sponsored enterprises that are fully guaranteed by the U.S. Government, and certificates of deposit that are FDIC insured.

Amortization and accretion of investment premiums and discounts are recorded as a component of investment return.

**Accounts Receivable and Allowance for Doubtful Accounts** — Accounts receivable are recorded at invoiced amounts and do not bear interest. Accounts receivable are reported net of an allowance for doubtful accounts in the statements of financial position. Management's estimate of the allowance for doubtful accounts is based on historical collection experience and ongoing account reviews. Account balances are written off against the allowance once the potential for recovery is considered remote.

**Concentration of Credit Risk** — Financial instruments that potentially subject the MSRB to a concentration of credit risk consist principally of cash, cash equivalents, accounts receivable and investments. The MSRB maintains cash primarily in non-interest-bearing accounts with FDIC insurance up to \$250,000. MSRB investments are backed by the full faith and credit of the U.S. Government or its fully guaranteed government sponsored enterprises. Accounts receivable consist of fees due from regulated entities and data subscribers. At times, there are certain significant balances due from regulated entities but the MSRB does not believe it is exposed to any significant credit risk on these balances. Five regulated entities accounted for approximately one-third of total fee revenue in fiscal year 2019 and fiscal year 2018.

**Use of Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, realization of accounts receivable, the carrying value of investments and the impairment of long-lived assets. Actual results could differ from those estimates.

**Fixed Assets** — Computer and office equipment, as well as furniture and fixtures, are recorded at cost and are depreciated using the straight-line method over three years and five years, respectively. Acquisition costs include all expenses necessary to prepare the asset for its intended purpose including direct labor related costs. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease period or the estimated useful life of the improvement.

Improvements and replacements of fixed assets are capitalized. Maintenance and repairs that do not improve or extend the lives of fixed assets are charged to expense as incurred.

When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in the statements of activities.

**Capitalized Software Costs** — The MSRB capitalizes certain costs associated with computer software developed or obtained for internal use as part of the MSRB information systems. The MSRB's policy provides for the capitalization of external direct costs of materials and services and direct payroll-related costs incurred during the application development stage as well as costs related to upgrades and enhancements to this software provided it is probable that these expenditures will result in additional functionality. Costs associated with preliminary project stage activities, training, maintenance and post implementation stage activities are expensed as incurred.

After all substantial testing and deployment are completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over three or five years, depending upon the expected useful life.

**Impairment of Long-Lived Assets** — The MSRB's policy is to review its long-lived assets, such as fixed assets and capitalized software costs, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment, if any, is recognized in the period of identification to the extent the carrying amounts of an asset exceeds the fair value of such asset.

**Leases** — The MSRB leases office space under non-cancelable operating leases and may include options that permit renewals for additional periods. Rent abatements and escalations are considered in the determination of straight-line rent expense for operating leases. Lease incentives are recorded as deferred rent and recognized as a reduction to rent expense on a straight-line basis over the lease term.

**Deferred Revenue** — Data subscriber revenue is recognized on a straight-line basis over the service period. Deferred revenue represents the portion of payments received applicable to future periods.

**Functional Allocation of Expenses** — The costs of providing the various organizational activities and programs have been summarized on a functional basis in the statements of activities. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation determined by management on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, occupancy, internal information technology, office expenses, general insurance and personal property

taxes, which are allocated based upon a percentage of total salaries. Certain salaries were allocated based upon estimated efforts.

### **Functional Descriptions:**

*Market Regulation and Professional Qualifications* — This group ensures that MSRB rules and professional qualifications exams are up-to-date, effective and reflective of current market practices. Regulatory staff include key professionals charged with developing and maintaining the MSRB's regulations that establish responsibilities and standards for dealers effecting municipal securities transactions and for municipal advisors that engage in municipal advisory activities. These staff also maintain the MSRB's professional qualifications program, create compliance aids and provide assistance to other securities regulators that examine for compliance with and enforce MSRB rules.

*Market Structure, Transparency and Operations* — This group oversees strategic development and ongoing improvements of the EMMA website and related market transparency systems, maintains and modernizes IT infrastructure in support of market transparency and analyzes data collected by the MSRB's market transparency systems. Operational support staff are the primary interface with the market participants that require assistance in using the MSRB market transparency systems. This group regularly interfaces with Market Regulation, for example by conducting economic analysis and research related to regulatory and transparency projects.

*Market Leadership, Outreach and Education* — This group is responsible for managing and supporting efforts to engage and communicate with external stakeholders, including investors, issuers, regulated entities, fellow regulators and Congressional committees responsible for oversight of the MSRB, as appropriate. The MSRB's outreach and communications staff oversee MSRB events, training, education and related activities.

*Board of Directors* — The 21-member Board exercises oversight of the operation and administration of the organization. The Board consists of a majority of public members as well as members representing regulated entities, including municipal advisors, broker-dealers and banks. The Board makes policy decisions and authorizes rulemaking and market transparency initiatives.

*Executive Leadership, Board Support and Administration* — This group is responsible for advising and supporting the Board in setting the strategic direction of the organization, managing risk, assisting the Board and ensuring appropriate spending and staffing as well as rigorous application of internal operational controls.

**Reclassifications** — Certain amounts included in the fiscal year 2018 financial statements have been reclassified to conform to the fiscal year 2019 presentation. For fiscal year 2018 functional expense reporting, certain salaries were reallocated based upon estimated efforts. In

addition, staff meetings previously allocated to more than one function now remain as a supporting function.

**Reciprocal Transactions** — The MSRB receives municipal credit ratings data for municipal securities in exchange for its data subscription service feeds. The revenue and expenses are recognized in the statements of activities at the same data subscription fee rate that other data subscribers pay for similar services. Revenue and expenses recognized totaled \$137,500 and \$132,000 for the years ended September 30, 2019 and 2018, respectively.

## Revenue Recognition:

*Underwriting Assessment Fees* — The underwriting assessment fee on municipal securities dealers acting as underwriters is required to be paid per Rule A-13 and is equal to \$0.0275 per \$1,000 of the par value of municipal securities purchased by underwriters from an issuer as part of a new issue. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' underwriting during the first, third and fourth quarters of fiscal year 2019 to \$.0185 per \$1,000 of the par value of municipal securities purchased by underwriters from an issuer as part of a new issue.

Revenue from underwriting assessment fees is recognized in the month the underwriter files the offering document with the MSRB.

*Transaction Fees* — The transaction fee on municipal securities dealers is required to be paid per Rule A-13 and is \$0.01 per \$1,000 par value of bonds sold and is levied on both customer and interdealer transactions as specified in Rule A-13. As described in this rule, certain transactions are exempt from this fee. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' transaction fees related to market activity during the first, third and fourth quarters of fiscal year 2019 to \$.0067 per \$1,000 of the par value of bonds sold.

Transaction fee revenue is recognized as sales transactions are settled.

*Technology Fees* — The technology fee on municipal securities dealers is required to be paid per Rule A-13 and is \$1.00 per municipal security trade for all customer and interdealer sales transactions. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' technology fees related to market activity during the first, third and fourth quarters of fiscal year 2019 to \$.67 per municipal security trade.

Technology fee revenue is recognized as sales transactions are settled.

*Data Subscriber Fees* — For a fee, the MSRB provides access to four electronic information systems that collect, store and provide information pertaining to the municipal securities market. The MSRB Primary Market Disclosure System includes official statements, advance refunding documents and related data. The MSRB Continuing Disclosure System includes continuing disclosure documents and related data from municipal securities issuers, obligated persons and their agents. The Real Time Transaction Reporting System covers data on all municipal securities transactions for purposes of price transparency and surveillance. Finally, the Short-term Obligation Rate Transparency System covers short-term obligation rate reset data and related documents. Information processed by these systems is sold to subscribers on an annual basis with revenue recognized straight-line over the period of service. In addition, the MSRB sells annual historical collections of information from these systems, with the fee billed and recognized at the time of purchase.

*Municipal Advisor Professional Fees* — Each municipal advisor that is registered with both the SEC and the MSRB is required to pay an annual per professional fee of \$500 per Rule A-11, effective April 2018.

*529 Plan Underwriting Fees* — Beginning in fiscal year 2018, underwriters to 529 savings plans must pay an annual fee of \$.005 per \$1,000 of the total aggregate plan assets as of December 31 of each year as reported on MSRB Form G-45, and as required to be paid per Rule A-13.

*Annual and Initial Fees* — With respect to each fiscal year of the MSRB in which a regulated entity conducts business, the regulated entity is required to pay an annual fee of \$1,000 per Rule A-12. Revenue is recognized when regulated entities are billed annually in October, or when received upon initial registration with the MSRB to conduct business. The initial fee is a one-time fee of \$1,000 which is to be paid by every regulated entity upon registration with the MSRB under Rule A-12. Initial fee revenue is recognized when received.

*Rule Violation Fine Revenue* — The Dodd-Frank Act provides that fines collected by the Securities and Exchange Commission (SEC) for violations of the rules of the MSRB shall be equally divided between the SEC and the MSRB, and that one-third of fines collected by the Financial Industry Regulatory Authority (FINRA) allocable to violations of the rules of the MSRB will be paid to the MSRB, although the portion of such fines payable to the MSRB may be modified at the direction of the SEC upon agreement between the MSRB and FINRA. Fine revenue is recorded in the month earned.

*Professional Qualification Examination Fees* — Rule A-16 establishes the examination fee on persons taking certain qualification examinations of \$150 per exam. These examinations include the Series 50 (Municipal Advisor Representative Qualification Examination), Series 51 (Municipal Fund Securities Limited Principal Qualification Examination), Series 52 (Municipal Securities Representative Qualification Examination) and Series 53 (Municipal Securities Principal Qualification Examination).

Professional qualification examination fees are recognized in the month the exams are given and totaled \$449,905 and \$384,300 for the years ended September 30, 2019 and 2018, respectively. Professional qualification examination fees are included in other income in the accompanying statements of activities.

### New Accounting Pronouncements:

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The MSRB has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The ASU has been applied without significant impact to these financial statements.

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the FASB Concepts Statement, including the consideration of costs and benefits. The amendments in the update are effective for the fiscal year ending September 30, 2021. The MSRB is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The MSRB adopted this update for the removal, modification, or addition of certain fair value measurement disclosures presented in the financial statements. The impact of adopting ASU 2018-13 was not significant to these financial statements.

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-15 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 250-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This standard is effective for the fiscal year ending September 30, 2021. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The MSRB believes adoption of this standard

will not have a significant impact on the statements of financial position, statements of activities or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the guidance in former Accounting Standards Codification (ASC) (Topic 840) Leases. The most significant change will result in the recognition of lease assets for the right to use the underlying asset, and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. On November 15, 2019, the FASB issued ASU 2019-10 delaying the effective date for the new lease accounting standard. The effective date has now been postponed until the fiscal year ending September 30, 2022. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The MSRB believes adoption of this standard will have a significant impact on the statements of financial position and will not have a significant impact on the statements of activities and cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in Topic 605 explaining that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, Deferral of the Effective Date, to defer the original effective date prescribed by ASU 2014-09. These standards are now effective for the fiscal year ending September 30, 2020. The MSRB believes adoption of this standard will not have a significant impact on the financial statements.

### 3. INVESTMENTS

Investments as of September 30, 2019 and 2018, consist of the following:

	2019	2018
Government-guaranteed agency securities	\$12,407,791	\$28,016,696
U.S. Treasury notes and bills	35,942,817	27,416,955
Certificates of deposit	12,773,699	10,335,124
	\$61,124,307	\$65,768,775

Government-guaranteed agency securities include Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds, government sponsored enterprises fully guaranteed by the U.S. Government.

In September 2014, a letter of credit in the amount of \$130,000 was accepted as a security deposit by the landlord under the terms of the new office lease in Washington, DC. The MSRB purchased a certificate of deposit for the same amount to collateralize the letter of credit. This holding is included in certificates of deposit and is valued at \$133,963 and \$133,296 as of September 30, 2019 and 2018, respectively.

Net investment returns disclosed net of internal direct investment expenses of approximately \$11,000 in 2019 is included in other income in the accompanying statements of activities for the fiscal years ended September 30, 2019 and 2018 and consists of the following:

	2019	2018
Interest and dividends	\$1,229,010	\$839,337
Unrealized gains (losses)	908,331	(343,748)
Realized gains	12	6,286
	\$2,137,353	\$501,875

#### 4. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash, receivables, accounts payable and accrued expenses, approximate fair value as of September 30, 2019 and 2018 because of the relatively short duration of these instruments.

The MSRB carries certain financial instruments at fair value, which we define as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The MSRB is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The MSRB maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability, and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction, liquidity and general market conditions.

The MSRB's policy uses the GAAP framework for measuring fair value, which provides a fair value hierarchy

based on observable inputs. The hierarchy reflects three levels based on the transparency of inputs as follows:

*Level 1* — Fair value measurements that are based on quoted prices (unadjusted) in active markets that the MSRB has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The MSRB does not adjust the quoted price for such instruments.

*Level 2* — Fair value measurements based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

*Level 3* — Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, the MSRB would make assumptions about the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The MSRB considers observable market data to be readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The MSRB's Level 2 investments include U.S. Treasury notes, obligations of U.S. Government sponsored enterprises fully guaranteed by the U.S. Government and certificates of deposit.

The MSRB bases the fair value on pricing obtained from the MSRB's investment brokers. The MSRB does not adjust for or apply any additional assumptions or estimates to the pricing information it receives from its brokers. The brokers' pricing is compared to industry standard data providers or current yields available on comparable securities for reasonableness. The MSRB considers this the most reliable information available for the valuation of investments.

Investments were recorded at fair value as of September 30, 2019 and 2018, based on the following levels of hierarchy:

2019	Level 1	Level 2	Level 3	Total
Government-guaranteed agency securities	\$ –	\$12,407,791	\$ –	\$12,407,791
U.S. Treasury notes and bills	–	35,942,817	–	35,942,817
Certificates of deposit	–	12,773,699	–	12,773,699
	\$ –	\$61,124,307	\$ –	\$61,124,307

2018	Level 1	Level 2	Level 3	Total
Government-guaranteed agency securities	\$ –	\$28,016,696	\$ –	\$28,016,696
U.S. Treasury notes and bills	–	27,416,955	–	27,416,955
Certificates of deposit	–	10,335,124	–	10,335,124
	\$ –	\$65,768,775	\$ –	\$65,768,775

## 5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2019 and 2018 consist of the following:

	2019	2018
Billed accounts receivable	\$3,446,717	\$3,897,899
Unbilled accounts receivable	1,303,844	1,695,219
	4,750,561	5,593,118
Less allowance for doubtful accounts	(113,183)	(109,807)
	\$4,637,378	\$5,483,311

Unbilled receivables at September 30, 2019 and 2018 consist primarily of September transaction and technology fees revenue billed in early November.

## 6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2019 and 2018 consist of the following:

	2019	2018
Prepaid assets	\$1,268,818	\$1,454,307
Deposits	80,755	5,380
	\$1,349,573	\$1,459,687

## 7. FIXED ASSETS

Fixed assets as of September 30, 2019 and 2018 consist of the following:

	2019	2018
Capitalized software costs	\$34,945,358	\$33,601,376
Computer and office equipment	5,408,425	5,286,546
Leasehold improvements	4,054,896	4,051,796
Furniture and fixtures	1,708,741	1,704,212
	46,117,420	44,643,930
Less accumulated depreciation and amortization:		
Capitalized software costs	(27,055,045)	(24,288,882)
Computer and office equipment	(5,031,582)	(4,583,012)
Leasehold improvements	(1,175,603)	(872,820)
Furniture and fixtures	(1,314,095)	(980,828)
	(34,576,325)	(30,725,542)
	\$11,541,095	\$13,918,388

Depreciation expense and amortization expense during fiscal years 2019 and 2018 are as follows:

	2019	2018
Depreciation expense	\$ 795,882	\$1,374,759
Amortization expense for capitalized software cost and leasehold improvements	3,507,460	2,782,272
	\$4,303,342	\$4,157,031

**Impairment of long-lived assets** — Through regular review of long-lived assets, in fiscal years 2019 and 2018 no estimated impairment loss was recognized.

**Leasehold improvements** — In conjunction with the Washington, DC lease, the landlord provided up to \$4.4 million in landlord incentives, of which \$4.03 million funded leasehold improvements and \$323,000 offset future rent payments.

**Capitalized software costs** — For the fiscal years ended September 30, 2019 and 2018, \$4 million and \$8 million, respectively, of internally developed work-in-process costs for software not yet implemented are included in capitalized software costs.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2019 and 2018 consist of the following:

	2019	2018
Accounts payable and accrued expenses	\$1,569,920	\$1,351,555
Salaries, taxes and benefits payable	972,032	631,273
	\$2,541,952	\$1,982,828

## 9. COMMITMENTS AND CONTINGENCIES

**Operating Leases** — The MSRB leases office space under operating lease arrangements. The MSRB moved to new office space in Washington, DC in December 2015 and the lease will expire in fiscal year 2031.

The DC lease contains an escalation clause based on increases in rent and building operating costs. Rent expense is recognized on a straight-line basis over the term of the respective lease and is credited or charged to deferred rent as appropriate, which is included in liabilities in the accompanying statements of financial position. Total rent expense for operating leases for the fiscal years ended September 30, 2019 and 2018 was \$2,342,389 and \$2,280,826, respectively.

The MSRB has lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the fiscal years ended September 30, 2019 and 2018, were \$438,542 and \$464,871, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending September 30	
2020	\$ 1,695,466
2021	1,737,833
2022	1,781,172
2023	1,825,677
2024	1,871,348
2025 and beyond	13,351,890
Total minimum lease payments	\$22,263,386

**Employment Agreements** — In accordance with the chief executive officer's employment agreement, a 457(f) deferred compensation plan was maintained and annual contributions as defined by the agreement were made. Contributions and the related earnings and interest vest at certain interval dates. In fiscal year 2018, the chief executive officer's employment agreement was revised requiring early vesting and payout.

## 10. RETIREMENT PLAN

The MSRB has a defined contribution retirement plan for all employees. Participation commences upon date of hire as described in the plan document. For all active participants employed on the first day of the calendar quarter, the MSRB makes a quarterly contribution as required by the plan document. The contribution percentage ranges from 7% to 9% depending on the length of vested service as set forth in the plan document.

Each employee is fully vested upon being credited with three plan years of service. Employees may also make voluntary contributions to the plan. The MSRB made contributions to the plan totaling \$1,235,108 and \$1,130,047 for the years ended September 30, 2019 and 2018, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$1,000 and \$5,568 for the years ended September 30, 2019 and 2018, respectively.

## 11. INCOME TAXES

The MSRB is exempt from federal and state taxes on income (other than unrelated business income) under Section 501(c)(6) of the Internal Revenue Code and applicable income tax regulations of the Commonwealth of Virginia and District of Columbia. The MSRB files an

annual informational tax form, Form 990, with the Internal Revenue Service.

New Internal Revenue Code Section 512(a)(7) changes that began January 1, 2018 require tax-exempt organizations to increase unrelated business taxable income for qualified transportation benefits provided to their employees. Uncertainty remained in the benefits that would be subject to the tax in 2018. Due to the uncertainty and immateriality, the estimated contingency was not recognized in 2018. In 2019, the MSRB recognized approximately \$96,000 for the tax on qualified transportation benefits; approximately \$42,000 for the fiscal year 2018 obligation and \$54,000 in estimated 2019 taxes, of which a provision of approximately \$12,000 for the tax on qualified transportation benefits had been made as of September 30, 2019.

The MSRB addresses uncertain tax positions in accordance with ASC Topic 740, Income Taxes, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. During the years from 2016 to 2019, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax position.

## 12. AVAILABILITY OF RESOURCES AND LIQUIDITY

The following represents MSRB's financial assets at September 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 1,328,752	\$ 1,675,923
Investments	61,124,307	65,768,775
Accounts receivable - net	4,637,378	5,483,311
Accrued interest receivable	250,076	261,524
<b>Total financial assets</b>	<b>67,340,513</b>	<b>73,189,533</b>
Less amounts not available to be used within one year:		
Certificate of deposit held as collateral for lease letter of credit	133,963	133,296
Board designated net assets	5,866,021	6,988,059
	5,999,984	7,121,355
Financial assets available to meet general expenditures over the next 12 months	\$61,340,529	\$66,068,178

Organizational reserves are maintained to ensure the MSRB has appropriate resources to support mission objectives, to respond to regulatory requirements and pursue opportunities, to enable the organization to be fiscally prepared regardless of economic conditions, to provide the MSRB with the requisite level of liquidity to fund ongoing operations, and to ensure the long-term financial sustainability of the organization. The MSRB determines the target for organizational reserves by conducting a detailed and comprehensive analysis of the liquidity needs in four categories: Working Capital, Risk Reserves, Strategic Investment Reserves and Regulatory Reserves.

Certain funding priorities exist based on MSRB's responsibilities as an SRO. These priorities are:

- Funding for rulemaking, including economic analysis, funding to establish a professional qualifications regime, including examinations and continuing education requirements, and funding to provide enforcement support to the regulatory authorities that enforce MSRB rules;
- Funding for programs and services operated under MSRB rules, interpretations and information facilities; SEC rules or orders; Board direction and approval; or as otherwise provided for under applicable laws and regulations, including funding to update, maintain and replace any related technology systems;
- Funding to ensure the MSRB engages in market leadership activities, outreach and education, including receiving information from municipal market participants and other stakeholders to provide input that informs the rulemaking process, as well as ensuring that these stakeholders are aware of regulatory developments that may affect them and are educated on MSRB rules;
- Funding to develop and distribute eLearning courses to enhance understanding of the municipal securities market and the MSRB's rules;
- Funding to support and administer the activities of the Board and its committees; and
- Funding sufficient to maintain a prudent level of liquid reserves, taking into consideration a range of reasonably foreseeable market conditions and expected expenditures over a three-year time horizon.

As discussed in note 13, certain unrestricted net assets have been designated by the Board for specific strategic objectives. These assets are restricted to use by self-imposed limits by action of the Board and are not available for general expenditures. If necessary, the Board designation can be changed by the Board and the net assets can be made available for general expenditures.

### 13. BOARD DESIGNATED NET ASSETS

In conjunction with the fiscal year 2019 budget which was approved in July 2018, the Board approved a \$5 million designation of fiscal year 2018 unrestricted net assets for exploration of and the now approved transition to the cloud. In July 2019, the Board approved an additional \$3.5 million to increase the cloud designation to provide sufficient funds to cover the planned migration spend.

With the establishment of the technology fee on January 1, 2011, a Board designated technology renewal fund was created to provide funds for capital expenditures, such as the replacement or acquisition of computer hardware and software. The technology renewal fund is depleted by information technology capital expenses.

	2019	2018
Designated, cloud fund - balance beginning of year	\$4,980,464	\$ -
Board designation	3,500,000	5,000,000
Cloud exploration spend	(946,483)	(19,536)
Cloud migration spend	(1,753,330)	
Designated, cloud fund	5,780,651	4,980,464
Designated, technology renewal fund - balance beginning of year	2,007,595	6,625,558
Technology capital expenditures	(1,922,225)	(4,617,963)
Designated, technology renewal fund	85,370	2,007,595
Total Board designated net assets	\$5,866,021	\$6,988,059

### 14. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2019 financial statements for subsequent events through December 18, 2019, the date the financial statements were available to be issued. The MSRB is not aware of any subsequent events that would require recognition or disclosure in the financial statements other than the event disclosed below.

In September 2019, the MSRB filed with the SEC a proposed rule change for immediate effectiveness to amend MSRB Rule A-11 on assessments for municipal advisor professionals to increase the annual municipal advisor per professional fee from \$500 to \$750 in fiscal year 2020 and to \$1,000 in fiscal year 2021.





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