

MSRB Board of Directors Conflicts of Interest Policy

PURPOSE

This Policy describes and differentiates among actual, potential, apparent, industry based and specific conflicts, and provides guidance on the management of conflicts and whether they are to be disclosed on the Conflicts Disclosure Form as described below.

ACTUAL AND POTENTIAL CONFLICTS OF INTEREST

An actual conflict of interest is a circumstance in which a Board member has a substantial financial interest or personal consideration that conflicts with the interests of the MSRB such that there is a possible compromise or bias in the independence or objectivity of the Board member acting in his or her capacity as a Board member. In determining whether a financial interest is substantial, the Board member should be guided by the definition of “substantial financial interest” at the end of this Policy. This Policy of the Board of Directors (“Board”) extends to immediate family members of a Board member. An “immediate family member” is also defined at the end of this Policy. Thus, there is an actual conflict of interest if an immediate family member has a substantial financial interest or personal interest that conflicts with the interests of the MSRB such that there is a possible compromise in the independence or objectivity of the Board member acting in his or her capacity as a Board member.

An actual conflict of interest is a situation that exists; it is not potential. The situation creates the actual conflict. The existence of a conflict of interest is not something that is good or bad, right or wrong. It is this characteristic of a conflict of interest that is the reason this Policy is separated from the Board’s Code of Ethics and Business Conduct. An actual conflict is a situation to be addressed. The only “potential” aspect of an actual conflict of interest is the possible effect it may have on a Board member’s independence or objectivity, and an actual conflict exists regardless of whether independence or objectivity is affected. If a Board member has an actual conflict of interest, the proper management of the conflict should be discussed with the General Counsel.

All actual conflicts of interests must be disclosed to the MSRB. A conflicts of interest disclosure form (“Conflicts Disclosure Form”) is provided to all Board members annually. Board members must detail any actual conflict of interest on the form, execute it, and submit it promptly to the General Counsel. If, at any time following the submission of the Conflicts Disclosure Form, the Board member becomes aware of any additional actual conflicts of interest, or that the information on the Conflicts Disclosure Form has become inaccurate or incomplete, he or she must promptly amend the form and notify the General Counsel. Once reviewed, the General Counsel will determine whether further information is needed from the Board member or whether further action is warranted, such as recusal from a particular vote or resignation from the Board. Any questions concerning this policy should be directed to the General Counsel.

A potential conflict of interest is a situation that may develop into an actual conflict of interest. It is something the Board member should be mindful of, and, if the Board member controls the situation, the Board member should avoid the potential conflict ripening into an actual conflict.

A Board member should exercise judgment in determining whether a potential conflict of interest should be disclosed on the Conflicts Disclosure Form. Factors that may affect this decision include, (i) the likelihood that the potential conflict will ripen into an actual conflict of interest, (ii) if it were to become an actual conflict, whether the conflicting personal or family financial interest would be substantial, and (iii) whether it is a situation that should be brought to the attention of the General Counsel for advice on management of the potential conflict.

Board members who are uncertain whether a situation is an actual conflict, or whether a potential conflict should be disclosed, should discuss the facts with the General Counsel.

APPARENT CONFLICTS OF INTEREST; AVOIDING CONFLICTS

An apparent conflict of interest is a circumstance that would lead a hypothetical “reasonable person” to believe that the independence or objectivity of a Board member is likely to be compromised.

Board members must avoid situations that MSRB stakeholder believe may compromise their judgment or impair their ability to fulfill their obligations and fiduciary duty to the MSRB. Avoiding actual, potential, or apparent conflicts of interest is important to the MSRB because Board members must act with integrity and protect the reputation of the MSRB. Board members are also bound by a duty of loyalty and a duty of care to the MSRB and are obligated to act in the best interests of the organization.

Board members have a duty to consider all issues consistent with the statutory charge of the MSRB, which includes the protection of investors, municipal entities and obligated persons, and the public interest, without regard to the impact on the Board members or their employers, clients, or immediate family members. Board members must oversee the affairs of the MSRB honestly and prudently, and exercise their best care, skill and judgment for the sole benefit of the MSRB. Board members must also exercise good faith in carrying out their responsibilities to the organization and must not use their position with the MSRB for personal benefit. The interests of the MSRB must be the first priority when acting as a Board member.

Considerable thought must be given to determining whether to disclose an apparent conflict on the Conflicts Disclosure Form. Important factors that enter into this judgment are the magnitude of the likely negative perceptions of the “reasonable person”, and the nature of the reputational risk to the MSRB if the apparent conflict is not satisfactorily resolved. An apparent conflict may be a more important circumstance for disclosure on the Conflicts Disclosure Form

than a potential conflict of interest because an apparent conflict is possibly known by someone outside the MSRB, and its existence goes to the reputation of the MSRB.

INDUSTRY BASED CONFLICTS

Section 15B of the Securities Exchange Act of 1934 expressly requires that certain Board members be associated with and representative of MSRB regulated entities (broker-dealers, bank dealers, and municipal advisors). Thus, an actual, potential, or apparent conflict of interest could arise because the MSRB regulates the activities of these regulated entities. As such, Board members associated with MSRB regulated entities will, as a matter of course, act on issues that will have an impact on them and their employers and on other MSRB registrants on a relatively equal basis. Similarly, Section 15B expressly requires that a majority of Board members be public representatives, including, in some cases, representatives of investors or municipal entities that have a direct interest in municipal securities or other matters that are or may potentially be the subject of MSRB rulemaking. Public representatives may also have relationships, professional or personal, in the industry. As such, Board members that serve as public representatives will, as a matter of course, act on issues that may impact them and their clients and employers.

These types of industry based conflicts are unavoidable and Board members are not required to recuse themselves from participation in discussions and/or voting due to such conflicts, except when they involve a significant commercial business relationship or become a specific conflict, as discussed below. An industry based conflict that is the result of Board members' statutory representation of a broker, dealer, municipal securities dealer, or municipal advisor does not require disclosure on the Conflicts Disclosure Form. Public Board members that represent investors or municipal entities are not required to disclose routine circumstances in which a rule affects investors or municipal entities.

Board members may, however, encounter industry based conflicts of interest due to commercial business relationships that exist among Board members. Board members may have significant business relationships that could impact the impartiality of or give the appearance of impacting the impartiality of Board members with each other. For example, a Board member or his or her employer might be retained as a consultant by another Board member's employer. Another example of a commercial business relationship that could give rise to an actual or potential conflict of interest is a loan or a line of credit extended by one Board member's employer to another Board member's employer. In these instances, Board members must remember that their fiduciary obligations to the Board must be paramount. If a Board member feels that his or her Board obligations are impacted due to such relationships, he or she should consult with the General Counsel.

SPECIFIC CONFLICTS OF INTEREST

A specific conflict of interest is a conflict of interest that arises (i) when a Board member, or his or her employer or client, would be disproportionately affected by a particular MSRB decision or outcome compared to other similarly-situated market participants, (ii) when a Board member or his or her immediate family member would be impacted financially by a particular MSRB decision, or (iii) through any facts or circumstances known to the Board member that would significantly affect his or her independence or objectivity on a specific matter. In such instances, the Board member must disclose the conflict on the Conflicts Disclosure Form promptly and recuse himself or herself from any relevant Board or committee action. However, even if recused, Board members must remain mindful of their fiduciary duty to the Board and the confidentiality requirements detailed in the Board's Policies and Procedures, among other Board obligations.

Identifying conflicts of interest can be difficult, and, situations may arise that are not covered by this summary of actual, potential, apparent, industry or specific conflicts. Therefore, Board members are at all times expected to act on the side of caution and immediately bring to the attention of the General Counsel any situations that may involve conflicts of interest or that could be reasonably perceived to raise questions about possible conflicts, even if the Board member does not believe that an actual conflict exists.

BOARD MEETING MINUTES AND ACCESS TO BOARD MATERIALS

Conflicts of interest disclosed by Board members and any resulting recusals will be reflected in the applicable Board or committee minutes. When a Board member is recused from participating in board business due to a conflict of interest, the Board member will be denied access to applicable Board and committee materials on the Board web portal. The Board member is also prohibited from knowingly accessing such materials through other means.

SITUATIONS THAT MAY PRESENT CONFLICTS OF INTEREST

A. OUTSIDE ACTIVITIES AND CORPORATE OPPORTUNITIES

Board members should be sensitive to other commitments or activities (i.e., duties or service to another board or organization) that may interfere with the ability to act in the best interest of the MSRB. Board members are required to disclose all commitments to other organizations that create an actual conflict of interest on an annual basis. During the fiscal year, Board members must disclose promptly any new organization memberships or commitments that create an actual conflict of interest and update the Conflicts Disclosure Form accordingly. The General Counsel will consider the nature of the Board member's activities and will determine if further action is warranted.

Board members must not use their position on the Board or confidential information obtained as a result of their service on the Board to promote the financial interests of themselves or others. Further, Board members must not profit from business opportunities that arise as a result of their service on the Board in violation of their fiduciary duty to the Board or under the Code of Ethics and Business Conduct.

B. LOBBYING ACTIVITIES

In order to avoid a potential or apparent conflict of interest, no Board member may serve on committee or board positions or other leadership positions of organizations that regularly engage in lobbying or advocacy before the MSRB or before other regulatory bodies that have authority over MSRB-related activities. If a Board member accepts such a position, the Board member must determine in consultation with the General Counsel, whether to tender his or her resignation from the Board. Occasionally, organizations that do not regularly engage in municipal securities rulemaking advocacy or lobbying do so. In these circumstances, a Board member affiliated with such an organization must not deliberate or vote on any organizational action regarding MSRB activities.

C. ACTUAL OR PROSPECTIVE CHANGES IN EMPLOYMENT

During his or her tenure on the Board, the employment status of a Board member may change. For example, a Board member may change positions within the same organization or may change organizations due to change in employment, merger or other corporate action. If such a change conflicts with the statutory requirements for Board composition under Section 15B or the requirements as set forth in MSRB Rule A-3 on Membership on the Board (“Rule A-3”), then the Board member is automatically disqualified from serving on the Board as of the date of change in status.

Board members negotiating prospective employment (participating in an employment interview, discussing an offer of employment, or accepting employment with an employer even if the terms of employment are yet to be determined) that would, if such employment occurred, conflict with the statutory requirements for Board composition under Section 15B or the requirements as set forth in Rule A-3 should, as far as practicable, act as if the change in employment has already occurred, in accordance with the Board’s Policies and Procedures. That is, a Board member must evaluate possible actual, potential, apparent or specific conflicts of interest from the vantage point of both the current and potential employment position. As part of a Board member’s duty of loyalty to the MSRB, the Board member should notify the Board Chair and General Counsel, on a confidential basis, as early as possible of the potential change in employment. A change in employment status is governed by Section 4.3 of the Board’s Policies and Procedures.

DEFINITIONS

- “Immediate Family Member” means any Board member’s spouse or domestic partner, child, or any other relative who receives significant financial support from the Board member.
- “Substantial Financial Interest” means (i) employment by, or service as a director, officer, or other member of senior management of an MSRB regulated entity or vendor or (ii) ownership of stock, or another equity interest, in an MSRB regulated entity or vendor which is (a) one percent or more of the outstanding stock, if the entity or vendor is a publicly traded company, or one percent or more of the total value of assets of the entity or vendor, if it is not publicly traded; or (b) five percent or more of the stockholder’s total net worth. Notwithstanding the foregoing, a Board member who is a regulated representative is not deemed to have Substantial Financial Interest in the MSRB regulated entity with which he or she is affiliated.