



Municipal Securities Rulemaking Board

Fiscal Year 2020 Budget

For the Fiscal Year Beginning October 1, 2019

Ed Sisk, Chair of the Board of Directors

Nanette Lawson, Interim President and CEO; Chief Financial Officer



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ABOUT THE MSRB

The 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 Electronic Municipal Market Access (EMMA[®]) website, the official repository for information on 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 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 overseen by the Securities and Exchange Commission and Congress.

Dear Municipal Market Stakeholders,

As the Municipal Securities Rulemaking Board begins a new fiscal year on October 1, 2019, we are outlining our priorities and finances for the year ahead. FY 2020 will be a year of transformation—regulatory, organizational and technological—grounded in our mission to protect municipal bond investors, issuers and the public interest.

Governance and Leadership. Congress designed our self-regulatory model to permit us to draw upon the diverse expertise and experience of Board members from the issuer, investor, dealer and municipal advisor communities. We see the opportunity for continuous improvement of the MSRB's corporate governance practices. We have formed a special Board-level committee to conduct a thorough examination of our corporate governance practices, including Board size and composition, among other topics.

We also will be conducting a broad nationwide search for a president and chief executive officer to lead the organization. In the meantime, we are committed to supporting our incredible team of attorneys, technologists, operations professionals, market experts, educators, communicators and corporate support staff who contribute their time and talents to promoting the fairness and efficiency of this market. Our people are not only the largest single component of our expense budget; they are our greatest asset and the key to the MSRB's ability to fulfill our mission.

Regulation for the Future. The municipal market is evolving rapidly. We will continue to review our existing rules to ensure they adapt to changing market practices and advance our mission of promoting a fair and efficient market. We also will continue to provide compliance resources and clear guidance when appropriate. These activities will be informed by two Board advisory groups on compliance and municipal fund securities.

Technology and Data. A decade ago, a single website dramatically transformed the fairness and efficiency of our market by ensuring equal access to municipal securities data and disclosures for retail investors, issuers and all market participants at no cost. Today we see enormous potential to strengthen the role of the MSRB's Electronic Municipal Market Access (EMMA®) website and optimize the quality, reliability and utility of market

data. The Board's designation of \$8.5 million of excess reserves to evaluate and undertake an enterprise-wide migration to the cloud positions us to facilitate the use of market data for dynamic comparison, compliance support and deeper market analysis.

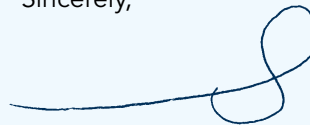
Financial Management. Each year, we publish our budget in support of our continued commitment to public accountability, transparency and responsible financial management. Our operating expenses of \$42 million reflect a steady commitment to the long-term strategic goals of the organization. As a self-regulatory organization, we are funded by those we regulate and receive no taxpayer dollars. Our revenues reflect the increase in the professional fees paid by municipal advisors to advance our goal of fair and equitable fees across regulated entities.

We remain committed to responsibly reach a target reserve level that preserves the MSRB's ability to operate without interruption under all market conditions. This year we will use reserves to fund a \$2.3 million operating deficit in addition to funding our technology transition to the cloud. We also will continue to champion the use of MuniEdPro® free interactive courses and other tools to advance education in the market.

Stakeholder Engagement. Each of you has helped shape this vision for MSRB priorities, goals and financial management in FY 2020. Because the Board greatly values this input, we have formed a new standing Board-level committee to ensure a continued focus on stakeholder engagement.

We welcome continued feedback and suggestions from regulated entities, investors, issuers, obligated persons, policymakers and the public.

Sincerely,



Ed Sisk, *Board Chair*



Nanette Lawson, *Interim President and CEO;
Chief Financial Officer*

Fiscal Year 2020 Budget

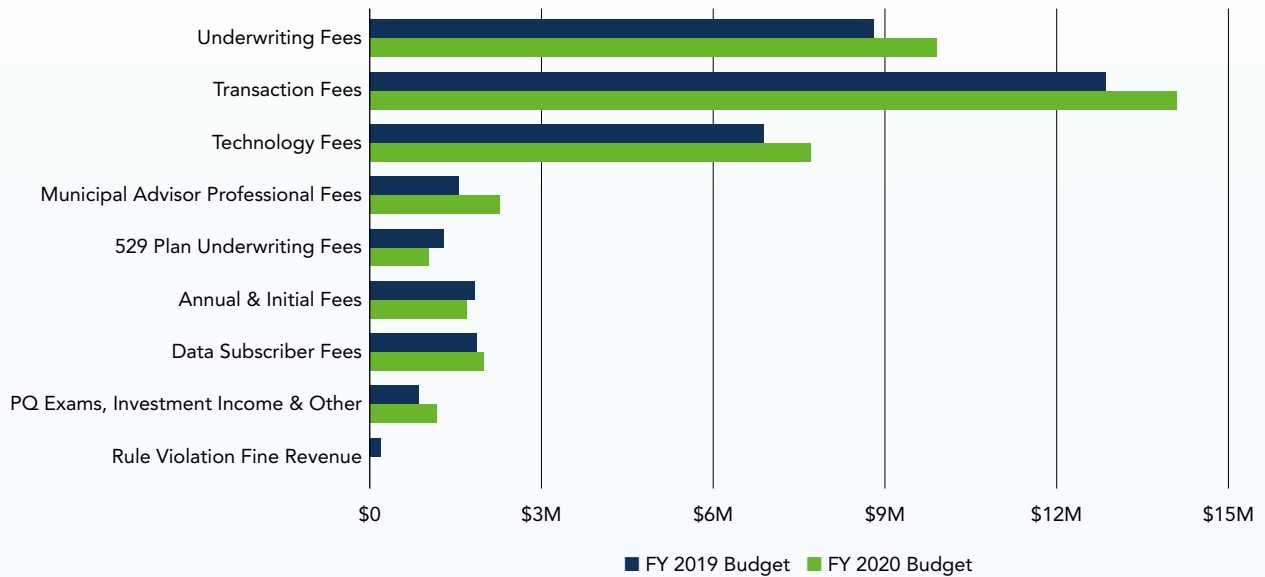
The MSRB's budget supports the organization's strategic and annual operating plan objectives. It is designed to fund statutory responsibilities, obligations and priorities identified and overseen by the Board of Directors to effectively regulate the municipal securities market. This year, the budget projects an operating deficit of \$2.3 million, as presented in the FY 2020 Annual Budget table. The MSRB is funding the FY 2020 operating deficit with excess organizational reserves as part of an effort to responsibly reduce reserves to target levels while it continues to assess the fairness, equity and sustainability of its funding sources and to ensure expenses remain

FY 2020 ANNUAL BUDGET

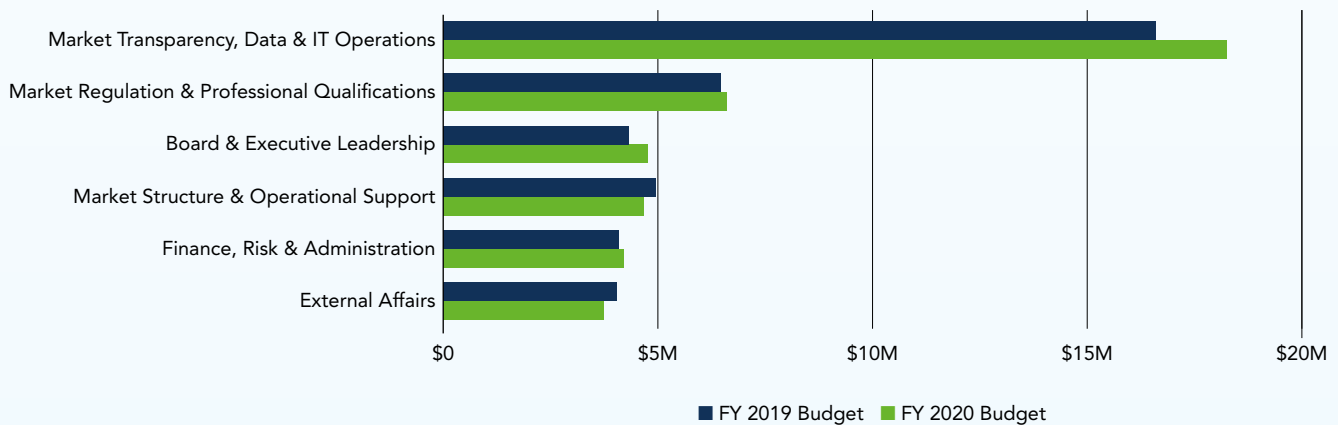
Revenue	FY 2019 Budget	FY 2020 Budget
Fee Revenue		
Underwriting Fees (FY 2019 net of \$829,000 fee decrease)	\$8,796,000	\$9,900,000
Transaction Fees (FY 2019 net of \$1,141,000 fee decrease)	12,859,000	14,100,000
Technology Fees (FY 2019 net of \$614,000 fee decrease)	6,886,000	7,700,000
Municipal Advisor Professional Fees	1,550,000	2,272,500
529 Plan Underwriting Fees	1,300,000	1,030,000
Annual Fees	1,800,000	1,650,000
Initial Fees	30,000	40,000
Professional Qualifications Exam Fees	330,000	370,000
MuniEdPro® Fees	50,000	–
Data Subscriber Fees	1,864,000	2,000,000
	Total Fee Revenue	\$35,465,000
Other Income		
Rule Violation Fine Revenue	200,000	–
Investment Income	468,000	794,000
	Total Revenue	\$36,133,000
Expenses		
Market Transparency, Data and IT Operations	\$16,604,310	\$18,241,891
Market Regulation and Professional Qualifications	6,462,634	6,612,679
Board and Executive Leadership	4,331,764	4,759,266
Market Structure and Operational Support	4,957,123	4,659,470
Finance, Risk and Administration	4,084,087	4,198,768
External Affairs	4,034,523	3,730,843
	Total Operating Expenses	\$40,474,441
Operating Deficit	(\$4,341,441)	(\$2,346,417)
Cloud Migration Initiative (Funded from Board Designated Cloud Fund)	\$300,000	\$4,150,000
Net Change in Assets	(\$4,641,441)	(\$6,496,417)

appropriately calibrated. The FY 2020 budget also includes an estimated spend of \$4.15 million for the enterprise-scale migration of 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. This cloud initiative is funded by the designation of a total of \$8.5 million of organizational reserves, which first funded the assessment of the feasibility of moving to the cloud and now are funding the migration to cloud computing.

BUDGETED REVENUE: FY 2019 BUDGET VS. FY 2020 BUDGET



BUDGETED EXPENSES: FY 2019 BUDGET VS. FY 2020 BUDGET*



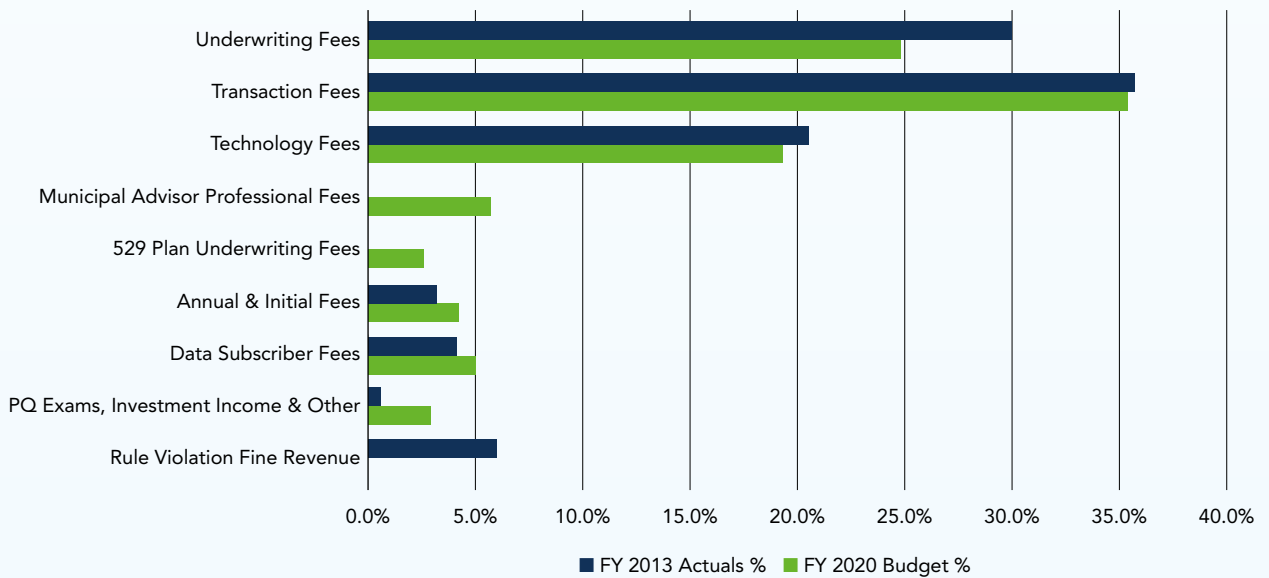
* Expenses presented by activity.

Revenues

FY 2020 revenues are budgeted at \$39.9 million, an increase of \$3.7 million from the prior year primarily due to no temporary fee reduction (where \$2.6 million was included in the FY 2019 budget) as well as a budgeted increase in bond volume and increased municipal advisor professional fees for FY 2020. By design, the MSRB’s budgeted revenue sources have expanded over the past eight years, yet most of the organization’s revenue—80% in FY 2020—is derived from municipal underwriting and trading fees, which rise or fall based on the underlying market activity. Brokers, dealers and municipal securities dealers (collectively, “dealers”) pay the MSRB an underwriting fee for municipal securities purchased from an issuer as part of a primary offering. These same entities pay the MSRB a transaction fee based on the par value of municipal securities sales and a per-transaction technology fee.

Based on the MSRB’s continuing efforts to ensure all regulated entities contribute equitably to fund their cost of being regulated and achieving the MSRB’s mission to promote a fair and efficient market, the Board determined it was appropriate to increase the 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. This year’s fee adjustment is estimated to generate over \$700,000 of incremental revenue in FY 2020 versus the FY 2019 budget. The introduction, and gradual increase, of the municipal advisor professional fee, the reduction of the underwriting fee rate in FY 2016 and the implementation of a 529 plan underwriting fee in FY 2018 have helped to continue the MSRB’s diversification of revenue

REVENUE DIVERSIFICATION BY % CONTRIBUTION: FY 2013 ACTUALS VS. FY 2020 BUDGET



and to reduce the percentage of total revenue generated from underwriting, transaction and technology fees to 80% in FY 2020 from 86% in FY 2013. The MSRB is committed to continuing to diversify its revenue sources, including reducing the extent to which market-based dealer fees fund MSRB operations, and to ensuring that the MSRB has a sustainable financial model that will enable it to continue to fulfill its statutory mandate and meet the unique responsibilities of being the self-regulatory organization for the municipal securities market.

FEE RATES (FY 2020)

Type of Fee	Rate
Underwriting Fee	\$0.0275 per \$1,000 par
Transaction Fee	\$0.01 per \$1,000 par
Technology Fee	\$1.00 per trade
Municipal Advisor Professional Fee	\$750 per professional (<i>\$1,000 per professional in FY 2021</i>)
529 Plan Underwriting Fee	\$0.005 per \$1,000 in plan assets
Annual Fee	\$1,000 per firm
Initial Fee	\$1,000 per firm
Professional Qualification Exam Fee	\$150 per exam

Industry Assessments

Assessments paid by dealer and municipal advisor firms vary greatly in their proportionate contribution to total annual assessments. The Distribution of Fee Assessments table illustrates the range of total annual fee assessments paid by firms in 2018 (the most recently available audited results) by percentage of fees paid and by number of registrants. Eight percent of registrant firms pay 92% of MSRB's annual assessments, while the remaining 92% of registrants pay 8%. These percentages underscore why the Board is so strongly committed to ensuring that all regulated entities that benefit from a well-functioning market made possible by the MSRB's oversight and substantial technology investments contribute fairly to those costs.

DISTRIBUTION OF FEE ASSESSMENTS*

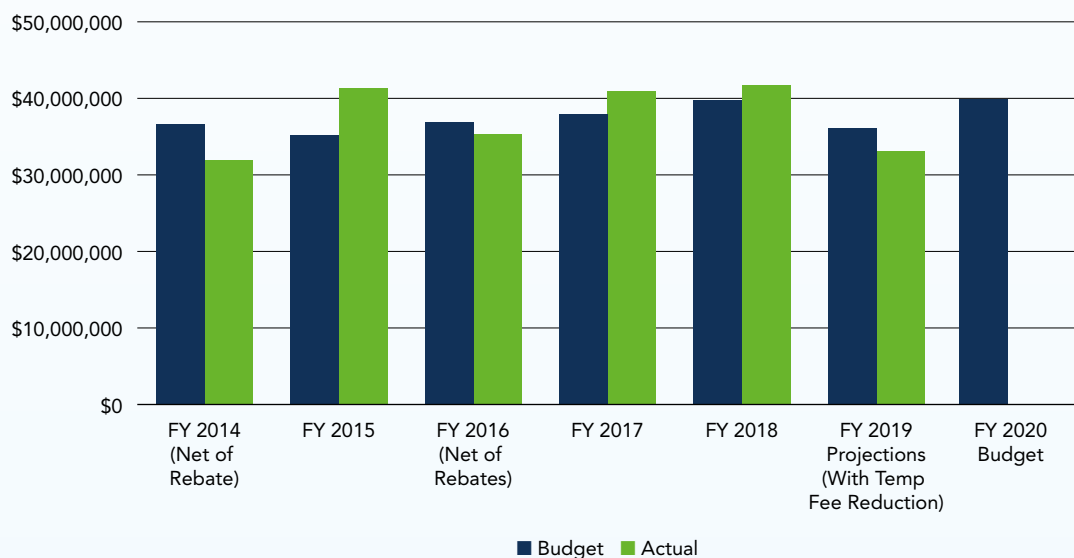
Total Annual Assessment Ranges	% of Annual Assessments Paid	# of FY 2018 Registrant Firms in Tier
\$1,000,001+	48%	8
\$500,001–\$1,000,000	22%	10
\$100,001–\$500,000	14%	25
\$10,001–\$100,000	8%	99
\$5,001–\$10,000	2%	85
\$2,501–\$5,000	1%	129
\$1,001–\$2,500	3%	780
\$0 to \$1,000	2%	696
Total	100%	1,832

* The most recently available audited results (FY 2018).

Budgeting for Revenue

Based on annual input from Board members and market data, the MSRB strives to make reasonable predictions when budgeting for revenue. Accurately predicting bond and trading volume for budgeting purposes remains challenging given economic factors, alternative sources of capital for issuers and other unknowns. The MSRB has historically been conservative when budgeting revenue, and for several years, actual market activity resulted in higher-than-expected revenues. Recognizing the previous, perhaps overly conservative, approach to budgeting revenue, the FY 2020 budget includes expected trading volume at the high-end of historical levels and higher than previously budgeted, and reflects an increase in bond volume to \$360 billion, a \$10 billion increase from the prior year. Note that in FY 2019, the MSRB budgeted for three months of temporary fee reductions to market-based fees to reduce excess reserves and return the excess to the firms that contributed to the excess position, but added a second, unbudgeted six-month temporary fee reduction to further reduce excess reserves based on a reduction in the reserves target, driving actual revenues below budget. Overall, the MSRB's FY 2020 revenue budget is less conservative than prior years and, given the deficit budget position, is not expected to grow organizational reserves.

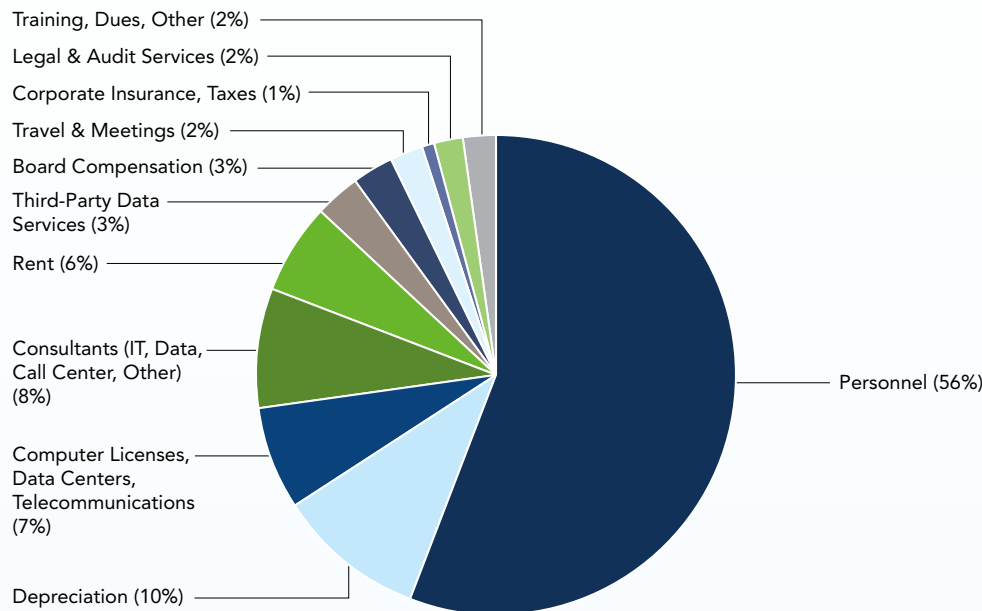
HISTORICAL REVENUE VARIANCES: BUDGET VS. ACTUAL



Expenses

FY 2020 expenses are budgeted at \$42.2 million, a 4% increase from the prior year. The MSRB's mission requires investment in people and technology to develop rules and market transparency and monitoring systems that ensure market integrity. The MSRB's FY 2020 budget aligns with these statutorily mandated activities and with long-term strategic goals established by the Board in FY 2017 as part of its strategic planning cycle.

FY 2020 BUDGETED EXPENSES: \$42,202,917*



* Expenses presented by account.

AT-A-GLANCE: MSRB MARKET TRANSPARENCY SYSTEMS

System	Average Approximate Volume Per Quarter
EMMA	8,681,000 page views
Real-Time Transaction Reporting System (RTRS)	2,487,000 trade reports
Short-Term Obligation Rate Transparency (SHORT)	102,000 submissions
Primary Market	4,600 documents
Continuing Disclosure	35,000 documents
Political Contributions	640 filings
Regulator Web	500 visits

Expenses by Activity

While “rulemaking” is part of the MSRB’s name, providing market transparency—and funding the technology and the professionals required to support it—is the organization’s largest expense. The MSRB’s market transparency systems, including the Electronic Municipal Market Access (EMMA®) website and the Real-Time Transaction Reporting System (RTRS), collectively receive, process and disseminate market-critical data and documents relied on by the municipal securities market 24 hours a day, seven days a week.

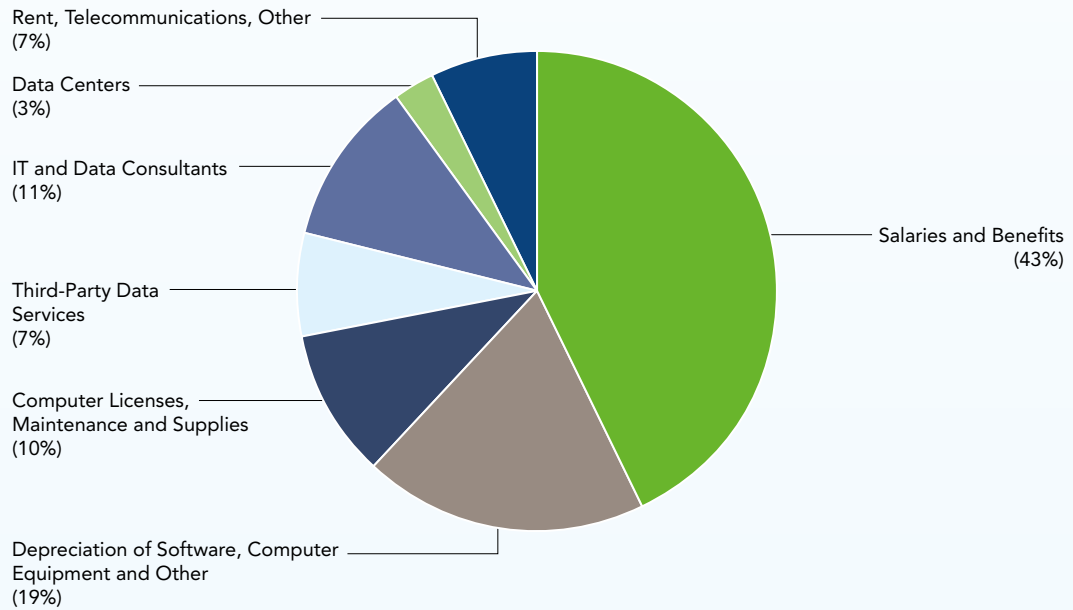
Regulators charged with enforcing MSRB rules—the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency—and other federal agencies such as the Internal Revenue Service and the U.S. Department of Treasury also depend on the MSRB’s ability to provide seamless access to real-time trade data and disclosure documents to support their work and analysis.

Market Transparency, Data and IT Operations (\$18.2 million)

In FY 2020, the MSRB’s 56 market transparency, data and IT staff are focused on executing an enterprise-scale migration of the MSRB’s market transparency systems and data to the cloud as well as investing significant resources to enhance internal data governance and quality in support of the organization’s data strategy. The migration effort, which began in FY 2019 and will continue into FY 2021, will transform both the organization’s internal IT operations and its external capabilities in big data analytics and computation. The budget likewise will be transformed in the coming years as expenses are reallocated from traditional IT hardware and data center expenses to cloud operating expenses. While the cloud migration will be the highest priority technology initiative during FY 2020, market transparency and IT operations staff will also be focused on advancing other critical initiatives, including enhancements to the collection of primary market data via MSRB Form G-32 and improvements to the transparency of the timeliness and modification history of continuing disclosures posted to the EMMA website.

In addition, to support the advancement of the data strategy and reflect the organization’s commitment to data, a new dedicated data management and analytics department has been established by reallocating resources from across the organization to bring a unified focus to this important effort. Over the next year, the data management and analytics department will begin the execution of a data plan that addresses data governance, security, quality, architecture and analytics.

FY 2020 MARKET TRANSPARENCY, DATA AND IT OPERATIONS BUDGET ALLOCATION



Market Regulation and Professional Qualifications (\$6.6 million)

Expenses for the MSRB’s market regulation and professional qualifications staff represent the second-largest segment of the budget. Nineteen staff are responsible for ensuring that MSRB rules and professional qualifications exams are up-to-date, effective and reflective of current market practices. In FY 2020, market regulation staff are engaged in a retrospective rule review that includes analyzing MSRB rules for their clarity and outcomes, as well as implications of technology and market changes. Regulatory staff include key professionals charged with developing and maintaining the MSRB’s professional qualifications program for municipal securities dealers and municipal advisors, including, this year, the final implementation of a

principal-level qualification examination for municipal advisors. Staff attorneys also create compliance aids and provide assistance to other securities regulators that examine for compliance with and enforce MSRB rules. Market regulation staff also act as a resource for all Board and advisory groups as they evaluate possible rule changes and improvements.

Board and Executive Leadership (\$4.8 million)

The MSRB is overseen by an executive leadership team of six staff members who also support the 21-member Board, which 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, which meets in person four times a year, makes policy decisions and authorizes rulemaking and market transparency initiatives.

Board committees—Audit and Risk, Finance, Nominating and Governance, Technology, and Stakeholder Engagement—perform work at the direction of the Board, and the Steering Committee assists in the administration of Board responsibilities and implementation of Board policy decisions. In light of the importance of strong governance practices, a newly created special Board committee on governance is charged with assessing and improving the organization's governance structure.

Board Creates Stakeholder Engagement Committee

FY 2019 was a formative year for the MSRB's engagement with its many stakeholders. In FY 2020, the MSRB Board of Directors created a Stakeholder Engagement Committee to assist in institutionalizing stakeholder engagement. The Committee will ensure that the Board's important role in directly engaging with and receiving feedback from municipal market participants will continue to provide insight for the Board's strategic discussions and decisions.

In addition, Board advisory groups allow for additional engagement with and feedback from municipal market participants. This year, the Board will be focused on overseeing transition in the organization's senior management, with a search committee conducting a nationwide search for a new president and CEO.

Market Structure and Operational Support (\$4.7 million)

The MSRB's market structure and operational support area, with 24 staff members, is a key component of the annual budget. This group conducts initiatives related to market structure and market transparency, including economic analysis and research related to regulatory and transparency projects such as producing data-driven reports on the impact of mark-up disclosure and dealer participation and concentration in municipal securities trading. Economic analysis informs the regulatory approach to addressing an identified need for rulemaking and evaluates the cost of the regulation against the benefit to the market. The market structure group oversees strategic development and ongoing improvements of the EMMA website and analyzes data collected by the MSRB's market transparency systems. Operational support staff are the primary interface with market participants that require assistance in using MSRB market transparency systems and handle an average of 1,470 contacts per month.

Finance, Risk and Administration (\$4.2 million)

Day-to-day financial, risk and human capital management at the MSRB are essential internal functions conducted by 16 professional staff who ensure appropriate spending and staffing as well as rigorous application of internal operational controls. Financial management staff this year continue to focus on assessing the fairness and equity of the MSRB revenue model and are engaged in the enhancement of its internal cost reporting methodologies to help inform Board decision-making.

External Affairs (\$3.7 million)

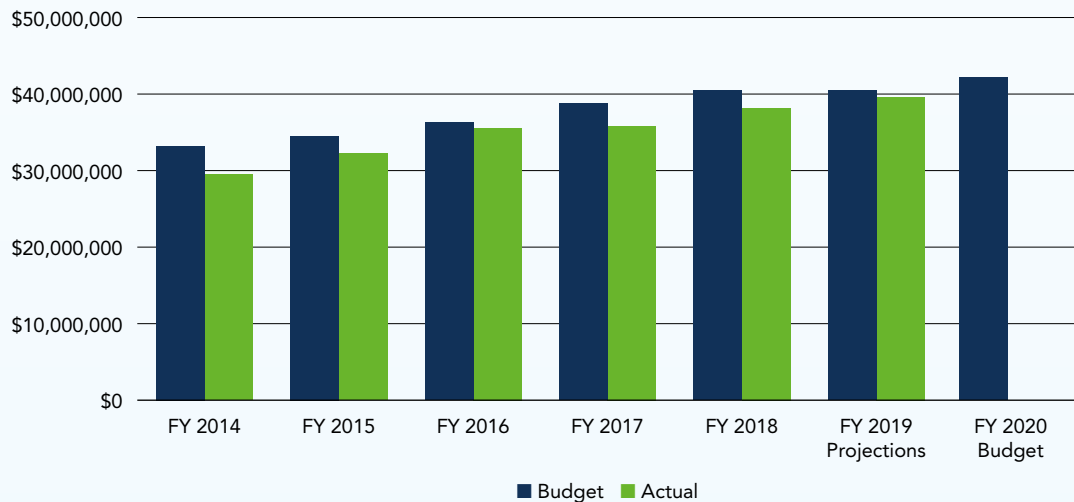
Numerous staff at the MSRB, as well as the Board, engage and communicate with external stakeholders, and a core group of 10 staff members is responsible for managing and supporting these activities. The MSRB’s outreach, communications and other external affairs staff oversee MSRB events, training, education and related activities, including regular interaction with Congressional committees responsible for oversight of the MSRB. In FY 2020, overseen by the new Board-level Stakeholder Engagement Committee, the MSRB will continue to engage with stakeholders to solicit industry feedback at events throughout the country. The MSRB will also champion the use of MuniEdPro® free interactive courses and other tools to advance education in the market.

Controlling Expenses

After holding the operating expense budget flat in FY 2019, the 4% increase in FY 2020 reflects the organization’s investment in major initiatives to support its mission. Personnel is the largest single component of the MSRB’s expense budget and its most important investment. Management is controlling this expense by holding overall headcount flat at 131 positions and reallocating resources to the highest priority areas. A compensation strategy guides the organization’s recruitment and retention efforts. This strategy is the foundation for the MSRB’s pay-for-performance and comprehensive, total-rewards approach to compensation.

The MSRB has a deeply rooted culture of controlling operating costs. Expenses historically and consistently come in under budgeted levels. As a result, the MSRB has continued to calibrate expenses and reduce flexibility in the budget, which has narrowed the gap between the budget and actual results.

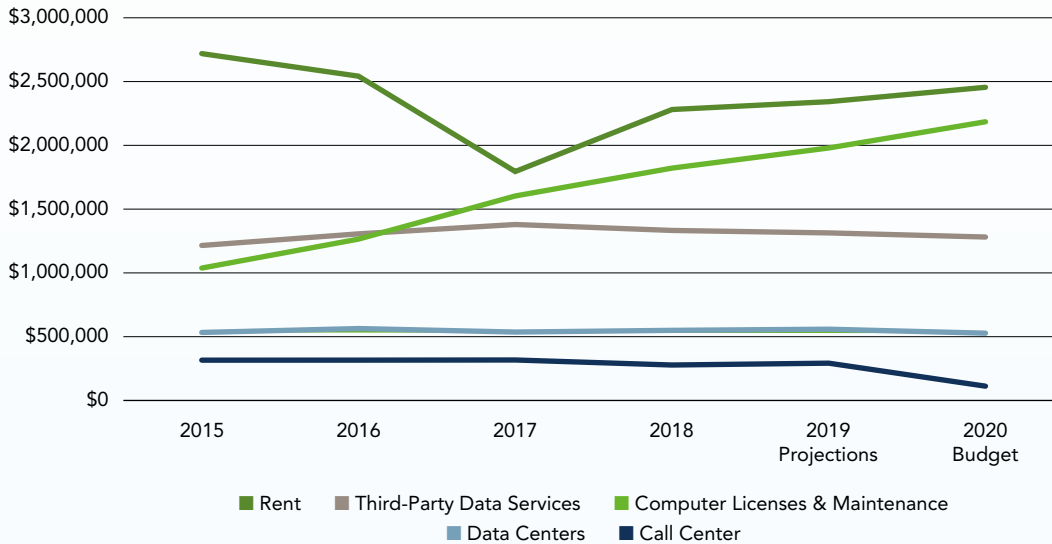
HISTORICAL EXPENSE VARIANCES: BUDGET VS. ACTUAL



The MSRB’s careful financial oversight is evident in the management of key expense areas. The Key Historical Expense Trends graph shows continually rising computer license and maintenance costs as the organization strives to enhance transparency, maintain systems integrity and security, and cultivate and leverage data. Rent expenses dropped initially following the 2015 move to Washington, DC from Alexandria, Virginia because of lease incentives and have since returned to more typical levels. The MSRB continues to look for opportunities to manage expenses such

as transitioning to a new call center, which reduced that expense by over 50%. In FY 2020 and coming years, the migration to the cloud will also transform expenses, as the MSRB moves from on-premises data centers to a cloud service provider.

KEY HISTORICAL EXPENSE TRENDS



Reserves

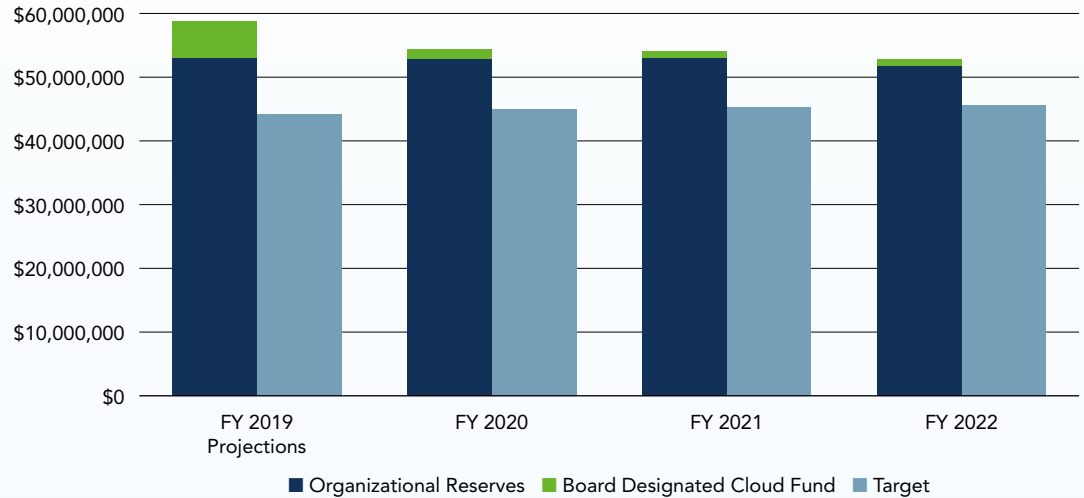
Organizational reserves are maintained in accordance with a Board funding policy to ensure the MSRB has appropriate financial resources to support mission objectives, respond to regulatory requirements, pursue opportunities, enable the organization to be fiscally prepared regardless of economic conditions, provide the MSRB with the requisite level of liquidity to fund ongoing operations, and ensure the long-term financial sustainability of the organization. Following a review in FY 2019, the Board adopted a new methodology for establishing the target reserves level that involves conducting a detailed and comprehensive analysis of the liquidity needs in four categories: working capital, risk reserves, strategic investment reserves and regulatory reserves. As a result of this analysis, the reserves target was reduced, and the Board subsequently determined to temporarily reduce certain fees related to market activity for the last six months of FY 2019 to return an amount similar to the reserves target reduction to those entities that had historically

MSRB’s Journey to the Cloud

In FY 2018, recognizing the importance of ensuring that the MSRB’s market transparency systems are positioned for the future, the Board designated \$5 million of organizational reserves to explore and potentially migrate to the cloud. A feasibility assessment and development of a cloud business case were completed in the first half of FY 2019 and, in April 2019, the Board determined to undertake an enterprise-scale migration of the MSRB’s market transparency systems and data to the cloud. The migration effort began in June 2019 and will continue into FY 2021. In order to fully fund the migration, including the initial business case development, technical migration and related operational and governance transformations, the Board designated an additional \$3.5 million of FY 2019 organizational reserves for a total spend of up to \$8.5 million from feasibility assessment through completion of the migration. Expenses related to the cloud migration will be funded by, and reduce, the Board Designated Cloud Fund. Unspent funds, if any, will be returned to organizational reserves.

contributed to the current position of reserves above target. The FY 2020 budget shows out-year projections for reserves remaining above target through FY 2022, though the gap is narrowing. The budgeted operating deficit in FY 2020 (and similar projected deficits in FY 2021 and FY 2022) are being funded by excess organizational reserves above target. While the MSRB anticipates funding budget deficits with excess reserves over target in the near term, this approach will not be sustainable indefinitely. The MSRB is focused on addressing this structural deficit, which includes ensuring that expenses are appropriately calibrated and that funding sources are providing sustainable revenue in a manner that is fair and equitable.

ORGANIZATIONAL RESERVES VS. TARGET



Financial Transparency

The MSRB strives to meet the highest standards for financial transparency. Financial information available on our website includes:

- [Annual Reports and Audited Financial Statements](#)
- [Sources and Uses of Funding](#)
- [FY 2018 IRS Form 990](#)

The MSRB also makes the following key financial policies available:

- [Funding Policy](#)
- [Fine-Sharing Policy](#)
- [Investment Policy](#)

MSRB Strategic Goals

The MSRB's strategic vision and annual priorities are designed to support the organization's Congressionally mandated mission to protect investors, state and local government issuers, other municipal entities and the public interest by promoting a fair and efficient municipal market. Current strategic goals are:

- ➔ Facilitate industry understanding of and compliance with MSRB rules through rule guidance, clarification and education in support of market efficiency.
- ➔ Further evolve the EMMA website into a comprehensive transparency platform that meets the needs of municipal market participants and the public.
- ➔ Optimize the use and dissemination of municipal market data to further support market transparency and inform regulation.
- ➔ Leverage the MSRB's unique perspective and expertise as an independent self-regulatory organization.
- ➔ Promote financial sustainability by assessing fair and equitable fees, diversifying funding sources and spending responsibly.



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