



Bonds that Connect Us

2020 ANNUAL REPORT



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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 and provides education and outreach to market stakeholders. The MSRB is a self-regulatory organization governed by a 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.

MESSAGE FROM MSRB CHAIR ED SISK

This year taught us a lot about the resiliency of our organization and the municipal market. Despite the unprecedented challenges brought on by the COVID-19 pandemic, strategic investments in our people and technology equipped the MSRB to carry out our important mission.

I am grateful to my fellow Board members and our dedicated staff of professionals who focused on four key initiatives in fiscal year 2020. The first initiative has taken our Electronic Municipal Access (EMMA®) website and related market transparency systems to the cloud (see p. 3). The second initiative, our year-long review of the Board's governance practices, resulted in several notable reforms and a smaller, more efficient Board (see p. 6). Third, we continued our work to reduce compliance burdens for our regulated dealer and municipal advisor firms through our retrospective rule review (see p. 10). And finally, we welcomed Mark Kim as our new CEO.

I look forward to continuing to work with Mark and the MSRB team to serve the municipal market.

Sincerely,



Ed Sisk, Board Chair

SELECTING A NEW CEO

"Mark's deep industry experience as a former issuer and banker, his proven leadership skills, and his record as an innovator in the municipal market are why the Board selected Mark to be the next leader of the MSRB. He has assisted local governments in raising capital and borrowed money from the market for two significant issuers. He understands first-hand how the regulatory process affects regulated entities and how critical it is to ensure that the process contributes to the fair and efficient operation of our important market.

At a volatile time for our market and our country as a whole, Mark has consistently impressed the Board with his creative and compassionate leadership and his understanding of the evolving needs of our internal and external stakeholders. We thank Mark, as well as Interim CEO Nanette Lawson and the staff of the MSRB, for tirelessly working to protect investors, state and local governments, and the public interest amid the uncertainty and upheaval of this uniquely challenging year."

Bill Fitzgerald, Chair
of the Board's CEO
Search Special
Committee





MESSAGE FROM MSRB CEO MARK KIM

I am honored and privileged to lead this organization that since 1975 has been entrusted to serve as the principal regulator of the municipal securities market, a market that is deeply connected to our quality of life. In fact, almost every aspect of our daily lives is touched by a municipal bond-financed infrastructure project—the public schools that educate our children, public hospitals that care for our sick and public transportation that will take us back to our workplaces one day. I am inspired by the MSRB’s mission to strengthen the bonds that connect us across all of our communities.

While the MSRB has already accomplished much in our 45-year history, there is still much to do. In the days and years ahead, we will sharpen our focus on modernizing our rules and technology and leveraging our data to serve the evolving needs of our industry. I am motivated by the opportunities ahead to deliver greater value to our stakeholders through a streamlined rule book, state-of-the-art market transparency systems and strategic investments in big data.

I believe that all great organizations share three common traits: an inspiring mission, great people and a strong culture. The MSRB is fortunate to have all three, and to benefit from the broad range of perspectives and expertise of our Board that reflects the incredibly diverse market we represent. As CEO, I could not ask for a better foundation upon which to build an even greater organization that will make a difference in people’s lives by creating a more fair and efficient market.

Sincerely,

Mark T. Kim, CEO

BONDS THAT CONNECT US

Technology and Data

IN TODAY'S INCREASINGLY VIRTUAL WORLD, we rely on technology to keep us connected. The MSRB operates the critical technology infrastructure that supports the effective functioning of the municipal bond market. To keep pace with the technology needs of our evolving market, the Board designated a total of \$8.5 million of reserves in FY 2018 and FY 2019 to evaluate and undertake an enterprise cloud migration. By the end of FY 2020, all of the MSRB's market transparency systems were successfully running in the cloud—on time, under budget and with no disruption to stakeholders.

Delivering on the Promise of the Cloud

The cloud migration is the biggest investment in technology since the development and launch of the free [Electronic Municipal Market Access \(EMMA®\) website](#) over a decade ago. In addition to delivering efficiencies and freeing up resources by eliminating physical data centers, operating in the cloud ensures the long-term reliability, quality, scalability and security of the MSRB's market transparency systems. With the cloud migration complete, the MSRB is now poised to deliver on the promise of cloud-based tools and data analytics. The Board is looking beyond the cloud migration by [committing an additional \\$10 million investment](#) of reserves to modernize the EMMA website and related market transparency systems in the years ahead. The system modernization effort will enable the MSRB to serve the market more effectively.



Hear members of the MSRB Board of Directors discuss our strategic investment in technology in the MSRB Podcast episode, [Enhancing Technology for the Future](#).



Engaging Stakeholders with EMMA Labs

To help identify and prioritize impactful ways to leverage the power of the cloud, in February 2020 the MSRB established the [Market Transparency Advisory Group \(MTAG\)](#). This group of 13 market professionals, representing a broad and diverse cross-section of the municipal market, provided their perspectives and participated in multiple interviews and workshops to shed light on the needs and pain points of municipal market participants. They served as the earliest beta testers of EMMA Labs, the MSRB's innovation hub for collaboration with stakeholders on prototypes of advanced data and technology tools that could eventually make their way to the EMMA website.

In 2020, EMMA Labs featured two active labs: a keyword search engine to unlock the information contained within the hundreds of thousands of disclosure documents submitted to EMMA as unstructured PDFs, and a dynamic market data analysis dashboard, which would empower users to discover market trends and patterns and enhance existing tools and market data reports. The MSRB will continue to expand the use of EMMA Labs to develop and deliver proven prototypes like these to the market.

Continuing to Enhance the EMMA User Experience

While much of the MSRB's IT resources were dedicated to supporting the cloud migration in FY 2020, the organization continued our work to enhance the EMMA user experience. Among the important enhancements to the EMMA website is a feature to provide greater transparency around the timing of issuers' financial disclosures—a concern that had been raised by the SEC and other market stakeholders. The [EMMA Submission Calculator](#), which went live in July 2020 after a period of stakeholder

beta testing, helps shed light on the timing of disclosures by displaying the number of days that have elapsed between an issuer's fiscal period end date for audited financial filings and the date a financial disclosure submission was made to the EMMA website.

To address stakeholder feedback, the MSRB also this year made improvements to the process for issuers to modify a previously submitted disclosure filing in the EMMA system. In addition, the MSRB began work on a new electronic form for underwriters to submit data on primary offerings of municipal securities. Stakeholder beta testing informed the MSRB's work on this new Form G-32, which is scheduled to go live in March 2021.

Turning Data into Insights

As the central repository for municipal securities data, the MSRB's data and research team analyzes the rich trove of market data and disclosures we collect through our market transparency systems. The [MSRB's market data publications](#) inform and assist market participants, policymakers and the public in developing a deeper understanding of the municipal securities market. In FY 2020, the MSRB's data analysis focused on helping municipal market stakeholders grappling with the market volatility and economic crisis generated by the COVID-19 pandemic.

At the height of the pandemic-driven volatility, the MSRB recognized the importance of leveraging our role as the central repository of market data to meet the significant need for comprehensive information during this disruptive time. The MSRB began publishing daily municipal securities trade data as well as a weekly summary of COVID-related primary market and continuing disclosures made to the EMMA system. The MSRB also published market commentary on how the COVID crisis affected

trading and prices in municipal bond exchange traded funds (ETFs) as well as transaction costs for municipal securities. The MSRB made all this information available to the public on our dedicated [COVID-19 information page](#).

Additionally, over the course of the year, the MSRB delivered several analyses of longer-term trends in the municipal market. In [Different Buying Patterns of Institutional and Retail Investors in Municipal Bonds](#), MSRB market structure experts found that retail investors tend to purchase municipal bonds with lower coupons than institutional investors and cautioned that the interest rate risk of lower coupon bonds could affect investors' ability to sell those bonds prior to maturity.

In [Competitive Bidding for Primary Offerings of Municipal Securities: More Bids, Better Pricing for Issuers?](#), the MSRB's chief economist analyzed competitive bidding activity in the municipal securities market during the primary offering process over the last 10 years and found that an increase in the number of competitive bids led to better pricing for issuers.

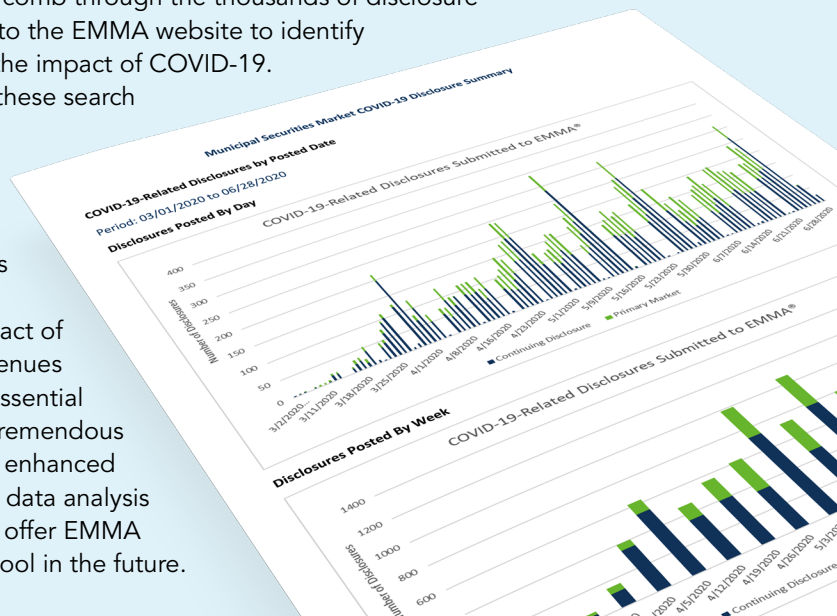
And in [Municipal Securities Pre-Trade Market Activity: What Has Changed Since 2015?](#), the MSRB found that an increase in quote provision and offer price competition since 2015 may have led to live quote prices becoming more visible to market participants and more informative to execution prices.

SHEDDING LIGHT ON THE IMPACT OF THE PANDEMIC ON STATE AND LOCAL GOVERNMENTS

When the Board committed to completing the cloud migration by the end of the 2020 fiscal year, no one could have imagined that only midway through the cloud migration the MSRB would already be rapidly deploying a prototype search engine to answer one of the most pressing questions of the COVID-19 crisis: How were state and local governments being financially impacted by the pandemic?

Every week over a six-month period, the MSRB's data team leveraged the power of cloud computing to comb through the thousands of disclosure documents submitted to the EMMA website to identify those that referenced the impact of COVID-19.

The team synthesized these search results into a recurring [COVID-related disclosure report](#), which serves as a window into how states and municipalities are grappling with the impact of COVID-19 on their revenues and ability to finance essential public services. It is a tremendous example of the kind of enhanced search capabilities and data analysis the MSRB is striving to offer EMMA users as a self-service tool in the future.



BONDS THAT CONNECT US

Representative Leadership



Hear Bob Brown, Chair of the Board's Governance Review Special Committee, and staff discuss the year-long, participative effort to enhance the MSRB's governance standards in the MSRB Podcast episode, [Enhancing Board Governance](#).

AS A SELF-REGULATORY ORGANIZATION (SRO), the MSRB is governed by a Board of Directors that consists of a majority of public members as well as representatives of municipal securities dealers and municipal advisors, all of whom have deep expertise in the municipal securities market. The diversity of perspectives of our leaders keeps us connected to market participants from all corners of the municipal securities market and helps promote a fair and efficient marketplace. Moreover, effective governance at the MSRB ensures that municipal securities investors, issuers, regulated market participants, and members of the public can have confidence in the \$4 trillion market. That's why in FY 2020, the Board focused on improving governance.

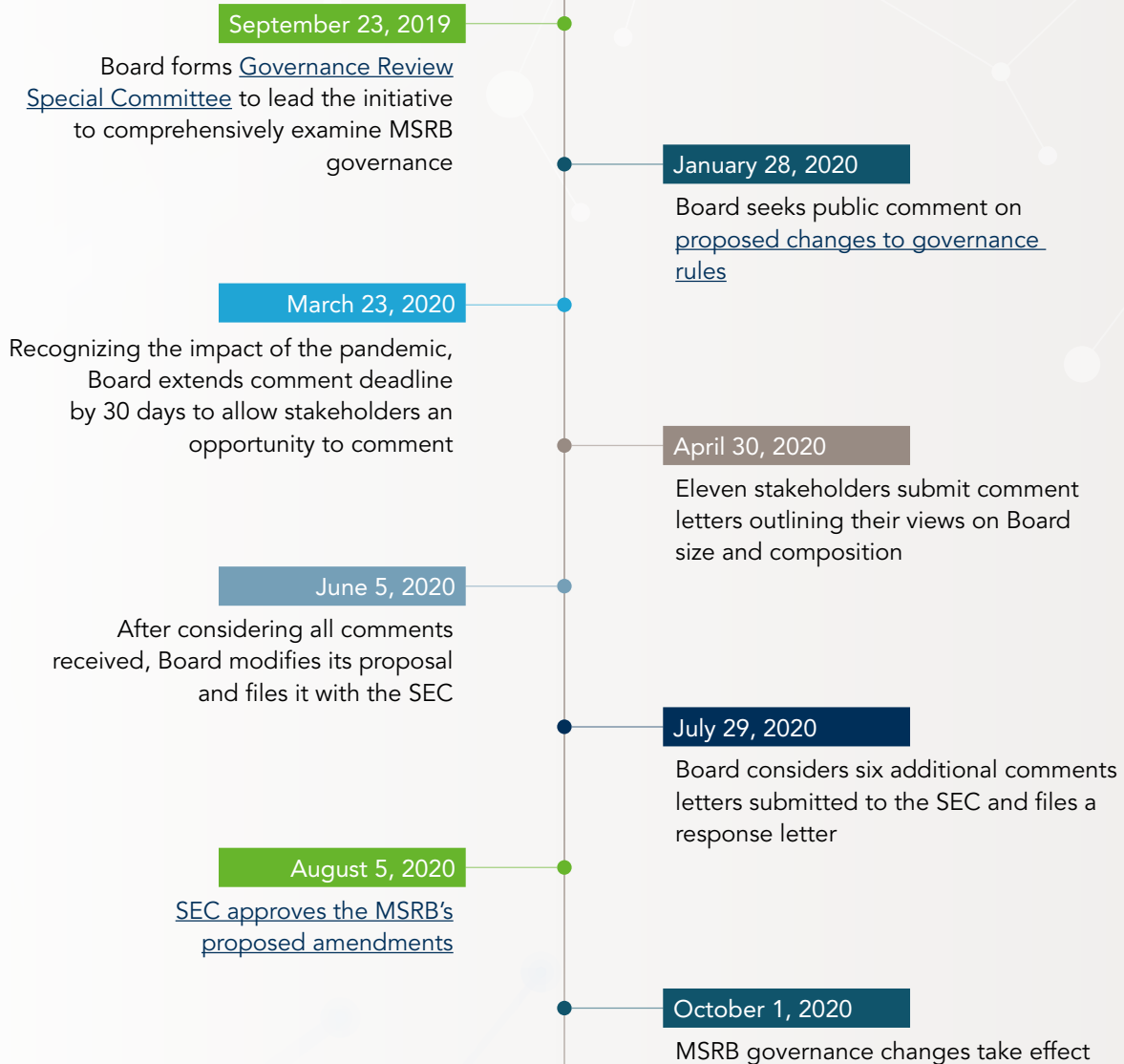
Enhanced Board Governance

[Enhancing overall Board governance practices](#) was one of the most important initiatives the MSRB embarked on in FY 2020. As a result of this year-long initiative, the MSRB began FY 2021 with a smaller Board and tightened standards of independence for public members. Key features of the amendments to the MSRB's governance rules include:

- Tightening the eligibility requirement for public Board members by increasing the separation period from a regulated entity to at least five years;
- Reducing the size of the 21-member Board, initially moving to 17 members in FY 2021 before ultimately shrinking to 15 members thereafter; and
- Establishing a lifetime service limit of six years for Board members.

The Board believes these amendments provide assurance of effective governance at the MSRB and inspire even more confidence among investors, issuers, regulated market participants, and members of the public.

YEAR-LONG FOCUS ON GOVERNANCE



BOARD OF DIRECTORS 2020–2021

OFFICERS

Edward J. Sisk
Chair

Julia H. Cooper
Vice Chair

PUBLIC REPRESENTATIVES



Julia H. Cooper,
Vice Chair

Director of Finance
City of San Jose
San Jose, California



Caroline Cruise
Portfolio Manager
Loews Corporation
New York, New York



Joseph Darcy
Retired
Belle Mead, New Jersey



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



Manju S. Ganeriwala
Treasurer
Commonwealth of Virginia
Richmond, Virginia



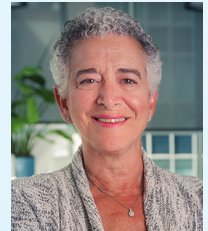
Meredith Hathorn
Managing Partner
Foley & Judell, L.L.P.
Baton Rouge, Louisiana



Carol Kostik
Retired
New York, New York



Thalia Meehan
Retired
Boston, Massachusetts



Donna Simonetti
Retired
Portland, Maine

SECURITIES FIRM REPRESENTATIVES



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



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



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



Sonia Toledo
Managing Director
Frasca and Associates, LLC
New York, New York

MUNICIPAL ADVISOR REPRESENTATIVES

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 Advisors
St. Louis, Missouri



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



Edward J. Sisk, Chair
Managing Director, Head of
Public Finance
BofA Securities
New York, New York

MSRB SENIOR LEADERSHIP



Mark T. Kim
Chief Executive Officer



Nanette D. Lawson
Chief Operating Officer
and Chief Financial Officer



Omer Ahmed
Chief Risk Officer



Brian Anthony
Chief Data Officer



John A. Bagley
Chief Market
Structure Officer



Adam Cusson
Chief Technology Officer



Jill Furick
Chief People Officer



Gail Marshall
Chief Regulatory Officer



Leah Szarek
Chief External
Relations Officer

BONDS THAT CONNECT US

Responsive Regulation

THE MSRB MAKES AND MAINTAINS RULES that protect investors and issuers and foster a fair and efficient municipal securities market that benefits us all. As times change and the market evolves, the market's rules also need to evolve. The MSRB has long prioritized initiatives that seek to make it easier and less burdensome for regulated entities to comply with our rules. Central to that effort is a retrospective rule review process that aims to streamline and modernize MSRB rules to help ensure that they continue to be effective in achieving their intended purposes. The rulemaking process relies on feedback from regulated entities through the public notice and comment process. When the COVID-19 pandemic demanded the full attention of the market, the MSRB pivoted our focus toward providing temporary regulatory relief to market participants while continuing to focus on investor protection and market transparency goals.

Providing Temporary Regulatory Relief

In light of the disruptions to normal business operations at the outset of the COVID-19 pandemic, the MSRB sought input from our Compliance Advisory Group and other market stakeholders to identify opportunities to provide targeted, temporary regulatory relief that would allow MSRB-regulated entities to prioritize resources toward meeting the needs of their employees and clients during the pandemic. Accordingly, the MSRB provided an extension of time for completing certain supervisory functions and professional qualification and continuing education requirements, as well as preparing to comply with recently amended fair-dealing guidance and an updated primary offering disclosure form. Additionally, the MSRB temporarily waived late fees for any annual and market activity-based fees. The MSRB also temporarily suspended price variance alerts for dealers and reminded regulated entities of the application of supervisory requirements in light of the coronavirus pandemic.

Moreover, to help promote a fair and efficient municipal market during this difficult time, the MSRB closely monitored and assisted with the creation and implementation of the Federal Reserve's Municipal Liquidity Facility (MLF). The MLF was established to purchase certain short-term municipal securities of states, cities and counties and other governmental entities to help them better manage cash flow pressures as they grappled with the effects of the COVID-19 pandemic. MSRB Chief Market Structure Officer John Bagley temporarily joined the Federal Reserve Bank of New York on secondment to lend his deep municipal market expertise to the implementation of the MLF. The MSRB also [temporarily waived market activity fees](#) for municipal market transactions related to this program.

Reducing Compliance Burdens

The MSRB regularly reviews our rules and guidance to more efficiently achieve the intended purpose and reduce the burdens of compliance. One outcome of that review was due to take effect on November 30, 2020. The MSRB had amended and restated interpretive guidance that was first implemented in 2012 regarding the fair dealing obligations underwriters owe to issuers of municipal securities under [MSRB Rule G-17](#). The [amended guidance streamlines disclosures](#) by underwriters to focus more narrowly on the risks and conflicts most relevant to a given transaction. The MSRB provides a period of time for the industry to adapt to amended rules and interpretive guidance, and in light of the pandemic, the MSRB extended the compliance date to implement the amended guidance to March 31, 2021.

Harmonizing MSRB rules with those of other regulators is another objective of the MSRB's retrospective rule review. In June 2020, the MSRB harmonized certain of our rules to facilitate compliance with the [SEC's Regulation Best Interest](#), which requires broker-dealers to act in the best interest of retail customers when making a recommendation of any securities transaction or investment strategy involving securities.

With the recommendations and insights of our Compliance Advisory Group, the MSRB continued our sustained emphasis on providing compliance assistance to regulated entities through tools and resources. In 2020, the MSRB published frequently asked questions (FAQs) associated with the pandemic-related temporary regulatory relief. The MSRB also published additional FAQs and relevant compliance topics in our quarterly [Compliance Corner](#) newsletter, which goes to more than 7,900 subscribers, and provided timely compliance tips in weekly emails to nearly 2,500 subscribers. Sign up to receive Compliance Corner or Compliance Tip of the Week by visiting the [MSRB's email subscriptions page](#).

For the fifth year, the MSRB joined the SEC and FINRA to host a free Compliance Outreach Program for Municipal Advisors. While the 2020 event was held virtually due to the challenges of the pandemic, it still provided an opportunity for more than 480 municipal advisor professionals to discuss regulatory and compliance issues with regulators.

BONDS THAT CONNECT US

Community

STAYING CONNECTED WITH MUNICIPAL MARKET STAKEHOLDERS helps inform and improve the MSRB's mission of establishing rules, promoting transparency and educating market participants. The COVID-19 pandemic made in-person engagement difficult, with MSRB staff and the Board shifting to full-time remote work in March 2020 as the nation shut down to slow the spread of the virus. Still, MSRB staff was able to remain connected and feel a sense of community despite not being physically present together through weekly all-staff video meetings. Meanwhile, MSRB staff and Board members continued to engage with external stakeholders through virtual meetings and conferences, webinars and other outreach activities.



"I really look forward to when we can see everyone's faces, share news and updates, laugh at some staff members' crazy backgrounds, and see pets and children making unscheduled appearances."



Nanette Lawson, Chief Operating Officer and Chief Financial Officer, talking about how MSRB staff remained connected in the MSRB Podcast [Leading through Crisis](#).

FY 2020 OUTREACH BY THE NUMBERS



26

In-person Events



35

Virtual Events



8,100+

Total Estimated
Attendance

Connecting Virtually—Podcasts, Webinars and Online Learning

In the summer of 2020, the MSRB launched a [second season of the MSRB Podcast](#). In a series of episodes, MSRB Board members, leaders and subject-matter experts shared their views on a number of topics related to the MSRB and the municipal securities market. Episodes featured a discussion of the MSRB's response to the pandemic-induced liquidity and credit crisis in the municipal securities market, as well as conversations about the MSRB's enhanced governance practices and investments in technology and market transparency advancements.

The MSRB continued to provide online municipal securities market education through our free, award-winning [MuniEdPro® platform](#). With more than 20 on-demand interactive courses, MuniEdPro® offers municipal bond professionals a turnkey solution for compliance training that they can easily access from their

home or office. Students can benefit from MuniEdPro® courses as well to supplement their school coursework.

As part of our effort to increase transparency around the continuing disclosure process, the MSRB offered two [webinars](#) to help EMMA users find continuing disclosures and identify the timing of issuers' annual financial disclosures on the EMMA website. Meanwhile, the MSRB updated a number of existing educational resources to make them more accessible to readers and made progress toward our goal of making the [MSRB Education Center](#) a more guided, integrated learning experience. The MSRB also expanded the reach of our educational efforts through weekly social media posts, promoting MuniEdPro® and other free resources through #muniedmonday and highlighting free features of the EMMA website through #emmatoolstuesday.

Serving the Community

The MSRB's team of approximately 110 employees are committed to making a difference in the communities we serve through volunteer and fundraising activities. During the year, the MSRB held food drives and donated canned goods and other food items to the [Capital Area Food Bank](#). MSRB staff also came together to donate toiletries for the homeless through [So Others Might Eat](#) and participated in the local [Cycle for Survival](#) event to support research at [Memorial Sloan Kettering Cancer Center](#) to help eliminate rare cancers.

Unfortunately, many of the MSRB's planned in-person activities were upended by the pandemic, including an important event the MSRB has supported every year for the past eight years—Municipal Finance Day. This is a day that the MSRB, in partnership with the [Municipal Forum of New York](#), brings New York

City high school seniors to the nation's capital to meet with industry regulators and policymakers. These high school seniors are selected for the Municipal Forum of New York's Urban Leadership Fellows program, which encourages them to explore careers in public finance through a paid summer internship. Hosting Municipal Finance Day for these students is one small way the MSRB can contribute to a broad longer-term goal of achieving more diversity in the municipal securities market. The MSRB plans to resume sponsoring Municipal Finance Day when conditions are safe to do so.

In memory of the MSRB's late Director of MuniEdPro® Terry McPherson, the MSRB made a contribution to youth education through a donation to the STEM scholarship fund established in his name.

FOLLOW THE MSRB ON



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[LinkedIn](#)

BONDS THAT CONNECT US

CAREFUL STEWARDSHIP OF INDUSTRY FUNDING



The MSRB is committed to modeling high standards for financial transparency and accountability through the annual publication of audited financial statements, the release of our annual budget at the beginning of each fiscal year, and the availability of key financial policies on our website. 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.

As a self-funded regulatory organization, the MSRB's revenues come primarily from the entities we regulate. We do not receive any taxpayer dollars. The MSRB must be positioned financially to carry out our statutory mission under all market conditions while being careful stewards of the funding that regulated entities provide. The annual budget and audited financial statements reflect that objective from both prospective and retrospective viewpoints. In 2020, significant developments both within and outside of the organization impacted our financial results and underscored the importance of our plans to prioritize the evaluation and management of organizational reserve levels in 2021.

Technology was a key focus for the organization in 2020 as we completed an enterprise-wide migration of the MSRB's systems to the cloud. Funded with a designation of \$8.5 million of reserves, the MSRB executed this effort within the planned timeline and budget. Our largest functional expense area of market structure, data and technology reflects our continuing investments in technology and data.

External forces arising from the COVID-19 pandemic also impacted our financial results. Fees based on market activity account for the majority of the MSRB's revenue, and accurately predicting bond and trading volume is challenging in any year but especially so

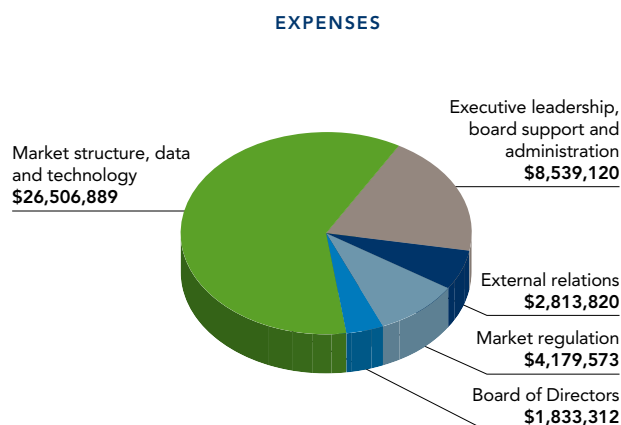
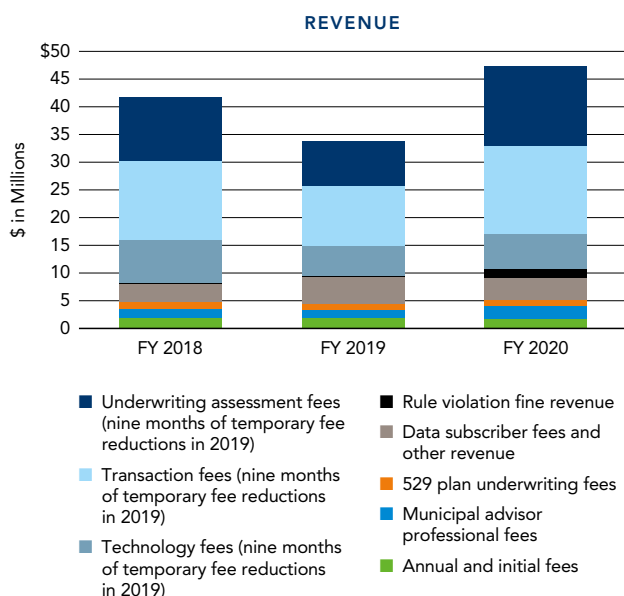
in a year disrupted by COVID-19. FY 2020 revenues reflect increased market volatility including historically high levels of primary market issuance in the final months of the fiscal year. In addition, the pandemic resulted in reduced expenses in several functional areas primarily related to travel and meetings as the organization pivoted to virtual operations. Higher-than-expected revenues and expense savings in 2020, driven primarily by COVID-19, increased reserves.

Responsible financial stewardship requires having a fee structure that is fair, equitable and generates sufficient revenue while ensuring reserve levels remain adequate to weather uncertainty regardless of market conditions. As a result, the Board and staff think about the organization's financial model regularly. The Board temporarily reduced the assessment rates for underwriting, transaction and technology fees by approximately one-third for nine months of 2019 in recognition that these market-based fees have historically exceeded their respective budgeted amounts, thereby directly contributing to the excess reserves position. And in our ongoing efforts for a fair and equitable fee structure, financial results for 2020 also reflect year one of a two-year phased increase in the per professional fees paid by municipal advisors, from \$500 to \$750 in 2020 and then to \$1,000 in 2021. The Board has prioritized evaluation of organizational reserve levels in FY 2021 as it remains committed to careful stewardship of industry funding and continuing alignment between the organization's financial resources, mission and strategic goals.

Sincerely,

Nanette Lawson
Chief Operating Officer and Chief Financial Officer

2020 FINANCIAL HIGHLIGHTS



September 30	2020	2019	2018
Statements of Financial Position			
Total Assets	\$ 83,153,694	\$ 80,231,181	\$ 88,567,608
Total Liabilities	9,492,157	9,943,197	9,752,147
Total Net Assets — Without Restrictions	\$ 73,661,537	\$ 70,287,984	\$ 78,815,461
Statements of Activities			
Revenue:			
Underwriting assessment fees (nine months of temporary fee reductions in 2019)	\$ 14,344,739	\$ 8,079,274	\$ 11,567,664
Transaction fees (nine months of temporary fee reductions in 2019)	15,810,342	10,817,184	14,192,475
Technology fees (nine months of temporary fee reductions in 2019)	6,421,457	5,442,066	7,733,728
Annual and initial fees	1,717,000	1,787,000	1,883,586
Municipal advisor professional fees	2,275,500	1,564,500	1,578,100
529 plan underwriting fees	1,166,953	991,399	1,292,504
Data subscriber fees and other revenue	3,970,421	4,942,415	3,191,304
Rule violation fine revenue	1,539,855	151,183	317,792
Total Revenue	<u>47,246,267</u>	<u>33,775,021</u>	<u>41,757,153</u>
Expenses	<u>43,872,714</u>	<u>42,302,498</u>	<u>37,378,304</u>
Change in Net Assets	<u>\$ 3,373,553</u>	<u>\$ (8,527,477)</u>	<u>\$ 4,378,849</u>
Statements of Cash Flows			
Cash Provided (Used) from Operating Activities	<u>\$ 3,192,169</u>	<u>\$ (3,890,127)</u>	<u>\$ 8,628,701</u>
Cash Investment in Technology Systems and Other Fixed Assets	<u>\$ 2,076,376</u>	<u>\$ 2,102,314</u>	<u>\$ 4,428,947</u>

MUNICIPAL SECURITIES RULEMAKING BOARD

Financial Statements as of and for the Years Ended September 30, 2020 and 2019

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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, 2020 and 2019 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, 2020 and 2019 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 16, 2020

PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102
T: 703 918 3000, www.pwc.com

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

<i>September 30, 2020 and 2019</i>	2020	2019
ASSETS		
Cash and cash equivalents	\$ 3,016,334	\$ 1,328,752
Accounts receivable — net	7,585,466	4,637,378
Prepaid and other assets	1,785,453	1,349,573
Accrued interest receivable	234,692	250,076
Investments	61,005,061	61,124,307
Fixed assets — net	9,526,688	11,541,095
TOTAL ASSETS	\$ 83,153,694	\$ 80,231,181
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 2,279,344	\$ 2,541,952
Accrued vacation payable	908,291	756,202
Deferred revenue	214,705	243,474
Lease obligation	4,430	—
Deferred rent	6,085,387	6,401,569
Total liabilities	9,492,157	9,943,197
Undesignated net assets	62,509,457	64,421,963
Designated, systems modernization fund	10,000,000	—
Designated, cloud fund	1,152,080	5,780,651
Designated, technology renewal fund	—	85,370
Net assets — without restrictions	73,661,537	70,287,984
TOTAL LIABILITIES AND NET ASSETS	\$ 83,153,694	\$ 80,231,181

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

STATEMENTS OF ACTIVITIES

<i>For the years ended September 30, 2020 and 2019</i>	2020	2019
REVENUE:		
Underwriting assessment fees	\$ 14,344,739	\$ 8,079,274
Transaction fees	15,810,342	10,817,184
Technology fees	6,421,457	5,442,066
Annual and initial fees	1,717,000	1,787,000
Data subscriber fees	2,049,720	2,235,257
Municipal advisor professional fees	2,275,500	1,564,500
529 plan underwriting fees	1,166,953	991,399
Rule violation fine revenue	1,539,855	151,183
Other income	1,920,701	2,707,158
Total Revenue	47,246,267	33,775,021
EXPENSES:		
Market regulation	4,179,573	5,882,499
Market structure, data and technology	26,506,889	22,461,103
External relations	2,813,820	4,943,897
Board of Directors	1,833,312	2,236,813
Executive leadership, board support and administration	8,539,120	6,778,186
Total Expenses	43,872,714	42,302,498
CHANGE IN NET ASSETS	3,373,553	(8,527,477)
NET ASSETS — Beginning of year	70,287,984	78,815,461
NET ASSETS — End of year	\$ 73,661,537	\$ 70,287,984

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

STATEMENTS OF FUNCTIONAL EXPENSES

Year ending September 30, 2020

	Program Activities				Supporting Activities		
	Market Regulation	Market Structure, Data and Technology	External Relations	Program Totals	Board of Directors	Executive Leadership, Board Support and Administration	Total Expenses
Compensation of current officers, directors, other salaries and employee benefits	\$ 3,119,904	\$ 10,987,496	\$ 1,371,423	\$ 15,478,823	\$ 1,239,053	\$ 5,937,838	\$ 22,655,714
Fees for services	227,931	6,046,347	601,796	6,876,074	240,889	1,184,080	8,301,043
Information technology	105,096	2,943,823	132,267	3,181,186	22,515	172,739	3,376,440
Occupancy	363,802	1,294,260	155,479	1,813,541	–	552,304	2,365,845
Travel and meetings	60,962	35,593	23,280	119,835	181,892	44,698	346,425
Depreciation and amortization	110,414	3,422,050	315,222	3,847,686	–	167,626	4,015,312
Insurance	24,810	87,107	10,603	122,520	119,384	37,665	279,569
Data and information services	27,547	1,223,719	7,305	1,258,571	–	–	1,258,571
Dues, registration and training	27,876	67,300	11,245	106,421	10,111	51,173	167,705
Property and other taxes	1,232	121,362	91,565	214,159	2,765	12,262	229,186
Office and other expenses	109,999	277,832	93,635	481,466	16,703	378,735	876,904
Total Expenses	\$ 4,179,573	\$ 26,506,889	\$ 2,813,820	\$ 33,500,282	\$ 1,833,312	\$ 8,539,120	\$ 43,872,714

Year ending September 30, 2019

	Program Activities				Supporting Activities		
	Market Regulation	Market Structure, Data and Technology	External Relations	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 meetings	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
Total Expenses	\$ 5,882,499	\$ 22,461,103	\$ 4,943,897	\$ 33,287,499	\$ 2,236,813	\$ 6,778,186	\$ 42,302,498

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$3,373,553	\$(8,527,477)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,015,312	4,303,342
Net loss on disposal of long-lived assets	52,306	3,805
Unrealized gain on investments	(397,787)	(908,331)
Net accretion of investment premiums and discounts	(56,888)	(92,459)
Realized loss (gain) on investments	2,026	(12)
Bad debt expense	137,310	46,249
Changes in assets and liabilities:		
Accounts receivable	(3,085,398)	799,684
Prepaid and other assets	(435,880)	110,114
Accrued interest receivable	15,384	11,448
Accounts payable and accrued liabilities	(234,907)	731,584
Accrued vacation payable	152,089	(32,312)
Deferred revenue	(28,769)	(60,980)
Deferred rent	(316,182)	(274,782)
Net cash provided (used) by operating activities	3,192,169	(3,890,127)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of long-lived assets	(2,076,376)	(2,102,314)
Purchases of investments	(41,303,105)	(25,438,026)
Maturities of investments	41,875,000	31,083,296
Net cash (used) provided in investing activities	(1,504,481)	3,542,956
CASH FLOW FROM FINANCING ACTIVITY		
Payments of lease obligation	(106)	-
Net cash used in financing activities	(106)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,687,582	(347,171)
CASH AND CASH EQUIVALENTS, Beginning of year	1,328,752	1,675,923
CASH AND CASH EQUIVALENTS, End of year	\$3,016,334	\$ 1,328,752
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrual of office equipment and software purchases	\$ -	\$ 27,701
Property acquired under finance lease	\$ 4,536	-

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

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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[®]) website to promote transparency and widespread access to information, and also engages in significant education, outreach and stakeholder engagement activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COVID-19 Implications on Operations and Liquidity — In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally resulting in mandates from federal, state and local authorities regarding shutdowns and remote work causing an overall decline in the economy. The MSRB has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for MSRB staff. In addition, the MSRB has taken steps to monitor and mitigate the effects of COVID-19 on the industry. At this stage, there has not been a material impact on the operations and liquidity of the MSRB and as discussed in note 12, reserves are maintained to ensure funding of critical operations. The ultimate impact of COVID-19 is not reasonably estimable at this time and the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 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 \$2.2 million and \$0.9 million at September 30, 2020 and 2019, 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 which is included in Other Income in the Statements of Activities.

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 with one account balance exceeding the FDIC limit by approximately \$506,000 at September 30, 2020. 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 2020 and fiscal year 2019.

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 a non-cancelable operating lease 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 a component of 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 — This group is responsible for developing and maintaining the MSRB's regulations that establish responsibilities and standards for dealers affecting municipal securities transactions and for municipal advisors that engage in municipal advisory activities. These staff also maintain the MSRB's professional qualifications program and create compliance aids and provide assistance to other securities regulators that examine for compliance with and enforce MSRB rules.

Market Structure, Data and Technology — These groups oversee strategic development and ongoing improvements of the EMMA website and related market transparency systems and data, maintain and modernize IT infrastructure in support of market transparency, execute the organization's data strategy, analyze data collected by the MSRB's market transparency systems and regularly interface with Market Regulation, including conducting economic analysis and research related to regulatory and transparency projects. Operational support staff are the primary interface with the market participants that require assistance in using the MSRB market transparency systems.

External Relations — 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. The MSRB's external relations staff oversee MSRB corporate communications, events, education programs and related activities.

Board of Directors — The 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 oversight of the organization and support of the Board. This group also ensures appropriate spending and staffing as well as rigorous application of internal operational controls.

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 Statement of Activities at the same data subscription fee rate that other data subscribers pay for similar services. Revenue and expenses recognized totaled \$137,500 for the years ended September 30, 2020 and 2019.

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 \$0.67 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 \$750 and \$500 for fiscal years 2020 and 2019, respectively per Rule A-11. 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 \$1,000 in fiscal year 2021.

Municipal Advisor Professional fee revenue is recognized when the municipal advisor is billed annually in April.

529 Plan Underwriting Fees — 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.

529 Plan Underwriting fee revenue is recognized when the 529 plan underwriter is billed annually in May.

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 Fee 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), Series 53 (Municipal Securities Principal Qualification Examination) and Series 54 (Municipal Advisor Principal Qualification Examination).

Professional qualification examination fees are recognized in the month the exams are given and totaled \$274,200 and \$449,905 for the years ended September 30, 2020 and 2019, respectively. Professional qualification examination fees are included in other income in the accompanying statements of activities.

New Accounting Pronouncements:

In November 2016, FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash. The amendments to this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The ASU has been applied with insignificant impact on the 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 material 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, 2022. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Management is in the process of evaluating the impact the standard will have on the financial statements and relevant disclosures for the year ended September 30, 2022.

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 No. 2019-10 delaying the effective date for the new lease accounting standard and in June 2020 the FASB issued ASU No. 2020-05 extending the deferral to entities that have not yet issued their financial statements. The effective date has now been postponed until the fiscal year ending September 30, 2023. Upon adoption of ASU 2016-02, entities are permitted to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective or full retrospective approach. Management is in the process of evaluating the impact the standard will have on the financial statements and relevant disclosures for the year ended September 30, 2023.

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 No. 2015-14, Deferral of the Effective Date, to defer the original effective date prescribed by ASU No. 2014-09, and in June 2020, the FASB issued ASU No. 2020-05 extending the deferral to entities that have not yet issued their financial statements. These standards are now effective for the fiscal year ending September 30, 2021. Management is in the process of evaluating the impact the standard will have on the financial statements and relevant disclosures for the year ended September 30, 2021.

3. INVESTMENTS

Investments as of September 30, 2020 and 2019, consist of the following:

	2020	2019
U.S. Treasury notes and bills	\$35,120,241	\$35,942,817
Certificates of deposit	19,734,216	12,773,699
Government-guaranteed agency securities	6,150,604	12,407,791
Total investments	\$61,005,061	\$61,124,307

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, D.C. 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 as of September 30, 2020 and 2019.

Net investment returns disclosed net of internal direct investment expenses of approximately \$18,000 and \$11,000 in 2020 and 2019, respectively are included in other income in the accompanying statements of activities for the fiscal years ended September 30, 2020 and 2019 and consists of the following:

	2020	2019
Interest and dividends	\$1,169,546	\$1,229,010
Unrealized gains	397,787	908,331
Realized (loss) gains	(2,026)	12
Total net investment return	\$1,565,307	\$2,137,353

4. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash and cash equivalents not subject to fair value measurements, receivables, accounts payable and accrued expenses, approximate fair value as of September 30, 2020 and 2019 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.

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, 2020 and 2019, based on the following levels of hierarchy:

2020	Level 1	Level 2	Level 3	Total
U.S. Treasury notes and bills	\$ –	\$35,120,241	\$ –	\$35,120,241
Certificates of deposit	–	19,734,216	–	19,734,216
Government-guaranteed agency securities	–	6,150,604	–	6,150,604
Total investments	\$ –	\$61,005,061	\$ –	\$61,005,061

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

5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2020 and 2019 consist of the following:

	2020	2019
Billed accounts receivable	\$5,899,184	\$3,446,717
Unbilled accounts receivable	1,881,216	1,303,844
	7,780,400	4,750,561
Less allowance for doubtful accounts	(194,934)	(113,183)
Total accounts receivable — net	\$7,585,466	\$4,637,378

Unbilled receivables at September 30, 2020 and 2019 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, 2020 and 2019 consist of the following:

	2020	2019
Prepaid assets	\$1,767,565	\$1,268,818
Deposits	17,888	80,755
Total prepaid and other assets	\$1,785,453	\$1,349,573

7. FIXED ASSETS

Fixed assets as of September 30, 2020 and 2019 consist of the following:

	2020	2019
Capitalized software costs	\$34,742,961	\$34,945,358
Computer and office equipment	3,904,635	5,408,425
Leasehold improvements	4,059,696	4,054,896
Furniture and fixtures	1,711,672	1,708,741
Total fixed asset acquisition costs	44,418,964	46,117,420
Less accumulated depreciation and amortization:		
Capitalized software costs	(27,987,437)	(27,055,045)
Computer and office equipment	(3,797,440)	(5,031,582)
Leasehold improvements	(1,461,282)	(1,175,603)
Furniture and fixtures	(1,646,117)	(1,314,095)
Total fixed asset accumulated depreciation and amortization	(34,892,276)	(34,576,325)
Total fixed assets — net	\$ 9,526,688	\$11,541,095

Depreciation expense and amortization expense during fiscal years 2020 and 2019 are as follows:

	2020	2019
Depreciation expense	\$ 625,256	\$ 795,882
Amortization expense for capitalized software cost and leasehold improvements	3,390,056	3,507,460
Total depreciation and amortization expense	\$4,015,312	\$4,303,342

Impairment of long-lived assets — Through regular review of long-lived assets, in fiscal years 2020 and 2019 no estimated impairment loss was recognized.

Leasehold improvements — In conjunction with the Washington, D.C. 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, 2020 and 2019, \$1.5 million and \$0.4 million, respectively, of internally developed work-in-process costs for software not yet implemented are included in capitalized software costs.

Capital Leased Equipment — Included in fiscal year 2020 Furniture and fixtures is the capitalized lease of a postage meter with a cost of \$4,536 and recognized depreciation expense of \$144. See Note 9 for a schedule of future minimum lease payments under this non-cancelable capital lease.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2020 and 2019 consist of the following:

	2020	2019
Accounts payable and accrued expenses	\$1,785,175	\$1,569,920
Salaries, taxes and benefits payable	494,169	972,032
Total accounts payable and accrued liabilities	\$2,279,344	\$2,541,952

9. COMMITMENTS AND CONTINGENCIES

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

The D.C. 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, 2020 and 2019 was \$2,345,936 and \$2,342,389, respectively.

The MSRB had lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the fiscal years ended September 30, 2020 and 2019, were \$345,080 and \$438,542, respectively. Beginning fiscal year 2019 and completing in fiscal year 2020, the MSRB undertook an enterprise-wide migration of MSRB's systems to the cloud allowing for the closure of two of three data centers during fiscal year 2020 and the planned closure of the third in early fiscal year 2021. Under the new cloud-based agreement for website hosting, business continuity and disaster recovery, the MSRB paid \$814,485 during fiscal year 2020.

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

Years Ending September 30	
2021	\$ 1,737,833
2022	1,781,172
2023	1,825,677
2024	1,871,348
2025	1,918,185
2026 and beyond	11,433,704
Total minimum operating lease payments	\$20,567,919

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

Years Ending September 30	
2021	\$1,164
2022	1,164
2023	1,164
2024	1,164
2025	1,164
2026 and beyond	97
Total minimum capital lease payments	\$5,917

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 \$1,188,715 and \$1,235,108 for the years ended September 30, 2020 and 2019, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$1,964 and \$1,000 for the years ended September 30, 2020 and 2019, 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 (IRC) 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.

IRC Section 512(a)(7) changes that began January 1, 2018 required tax-exempt organizations to increase unrelated business taxable income for qualified transportation benefits provided to their employees. 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. In early 2020, IRC Section 512(a)(7) was repealed retroactively. In fiscal year 2020, MSRB filed for and received refunds of all previously paid taxes on qualified transportation benefits.

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 2017 to 2020, 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, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 3,016,334	\$ 1,328,752
Investments	61,005,061	61,124,307
Accounts receivable - net	7,585,466	4,637,378
Accrued interest receivable	234,692	250,076
Total financial assets	71,841,553	67,340,513
Less amounts not available to be used within one year:		
Certificate of deposit held as collateral for lease letter of credit	133,963	133,963
Board designated net assets	11,152,080	5,866,021
	11,286,043	5,999,984
Financial assets available to meet general expenditures over the next twelve months	\$60,555,510	\$61,340,529

Organizational reserves are maintained to ensure the MSRB has appropriate resources to support mission objectives, 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 engage in 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 2021 budget, which was approved in July 2020, the Board approved a \$10 million designation of fiscal year 2020 unrestricted net assets to fund a multi-year strategic investment to modernize its market transparency systems to leverage the power of the cloud.

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.

	2020	2019
Designated, systems modernization fund	\$10,000,000	\$ –
Designated, cloud fund — balance beginning of year	5,780,651	4,980,464
Board designation	–	3,500,000
Cloud exploration spend	–	(946,483)
Cloud migration spend	(4,628,571)	(1,753,330)
Designated, cloud fund	1,152,080	5,780,651
Designated, technology renewal fund — balance beginning of year	85,370	2,007,595
Technology capital expenditures	(85,370)	(1,922,225)
Designated, technology renewal fund	–	85,370
Total Board designated net assets	\$11,152,080	\$5,866,021

14. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2020 financial statements for subsequent events through December 16, 2020, 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.



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