



MSRB
Municipal Securities
Rulemaking Board



ANNUAL REVIEW 2010

MUNICIPAL SECURITIES RULEMAKING BOARD



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The mission of the Municipal Securities Rulemaking Board (MSRB) is to protect investors, issuers of municipal securities and entities whose credit stands behind municipal securities, and public pension plans by promoting a fair and efficient municipal market. To accomplish this mission, the MSRB regulates securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. The MSRB operates the Electronic Municipal Market Access (EMMA) website to promote transparency and widespread access to information, provides education and conducts extensive outreach as part of its mission-driven activities. The MSRB has operated under Congressional mandate since 1975.

The MSRB Board of Directors is composed of 21 members, including members of the public, municipal securities dealers and municipal advisors, and is a self-regulatory organization subject to oversight by the Securities and Exchange Commission. Members of the MSRB meet throughout the year to make policy decisions, approve rulemaking, enhance information systems and review developments in the municipal securities market. The operations of the MSRB are funded through assessments on dealers and municipal advisors. A professional staff in Alexandria, Virginia manages the MSRB's day-to-day operations.

Senior Management

LYNNETTE KELLY HOTCHKISS
Executive Director

ERNESTO A. LANZA
General Counsel

JANET EAKES
Chief Operating Officer

ELIZABETH WOLFE
Chief Financial Officer

JENNIFER A. GALLOWAY
Chief Communications Officer

AL MORISATO
Chief Information Officer

2010-2011 MUNICIPAL SECURITIES RULEMAKING BOARD

OFFICERS



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Chair



JOHN W. YOUNG, II
Vice Chair

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MILROY A. ALEXANDER
Former CEO
Colorado Housing and
Finance Authority
Term ends September 30, 2012



SHERYL D. BAILEY
Deputy County Administrator
for Management Services
Chesterfield County, VA
Term ends September 30, 2012



ROBERT A. FIPPINGER
Senior Counsel
Orrick, Herrington & Sutcliffe
Term ends September 30, 2012



JAY M. GOLDSTONE
Chief Operating Officer
City of San Diego
Term ends September 30, 2012



FRANK THOMAS
HOWARD
Executive Director
Office of Financial
Management
Commonwealth of Kentucky
Term ends September 30, 2011



DAVID J. MADIGAN
Chief Investment Officer
Breckinridge Capital
Advisors
Term ends September 30, 2012



KATHLEEN A.
MCDONOUGH
Former Senior
Managing Director
Ambac Financial Group
Term ends September 30, 2011



MARK G. MULLER
Senior Vice President
Municipal Portfolio Manager
Loews Corporation
Term ends September 30, 2012



JOHN E. PETERSEN
Professor of Public Policy
George Mason University
Term ends September 30, 2012



BENJAMIN S.
THOMPSON
Founding Principal
Samson Capital Advisors
Term ends September 30, 2012



C. CHRISTOPHER
TROWER
Owner
electriclaw.com
Term ends September 30, 2012

BANK REPRESENTATIVES



MICHAEL G. BARTOLOTTA
Vice Chairman
First Southwest Co.
Term ends September 30, 2012



MARTIN H. VOGTSBERGER
Managing Director, Head of
Institutional Brokerage
Fifth Third Securities, Inc.
Term ends September 30, 2011



KEVIN L. WILLENS
Managing Director
Goldman, Sachs & Co.
Term ends September 30, 2012

MUNICIPAL ADVISOR REPRESENTATIVES



ADELA CEPEDA
President
A.C. Advisory, Inc.
Term ends September 30, 2012



ROBERT A. LAMB
President
Lamont Financial
Services Corp.
Term ends September 30, 2012



NOREEN P. WHITE
Co-President
Acacia Financial Group
Term ends September 30, 2012

SECURITIES FIRM REPRESENTATIVES



STANLEY E. GRAYSON
Vice Chairman and
Chief Operating Officer
M.R. Beal & Company
Term ends September 30, 2011



STEPHEN E. HEANEY
Managing Director and
Head of Public Finance
Stone & Youngberg LLC
Term ends September 30, 2012



ALAN D. POLSKY
Senior Vice President
Dougherty & Co. LLC
Term ends September 30, 2012



JOHN W. YOUNG II
Managing Director
Samuel A. Ramirez & Co. Inc.
Term ends September 30, 2011

Letter from the Chair

It is my pleasure to introduce the annual report of the Municipal Securities Rulemaking Board (MSRB).

In 2010, the regulatory structure of the municipal market underwent a historic change with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The law was the most significant piece of financial reform legislation to affect the municipal market since 1986.

The Dodd-Frank Act provides for regulation of previously unregulated market intermediaries that advise state and local governments and other issuers of municipal securities. The law also provides for the protection of municipal issuers and public pension plans. Since 1975, the MSRB has protected municipal securities investors by regulating brokers, dealers and municipal securities dealers.

Congress designated the MSRB as the regulatory authority to carry out this expanded market oversight. It also allowed us to create a Board of Directors that is composed of a majority of public members so that the public interest is best served. Our new responsibility was effective on October 1, 2010.

The MSRB has 35 years of experience protecting investors and regulating the firms that trade, sell and underwrite municipal securities. It also has the knowledge, commitment and market experience of a Board of Directors that is made up of a diverse group of individuals that represent both regulated entities, protected market participants, and the public.

Fully protecting municipal entities and regulating municipal advisors is a process that will evolve over time, but we expect to have fundamental safe-

The MSRB is charting a new course to help protect the integrity of the municipal market.

guards in place by the end of 2011. A year from now, we expect the market to be a different and better place—with new protections in place that will help preserve the fairness, efficiency and integrity of this essential capital market.

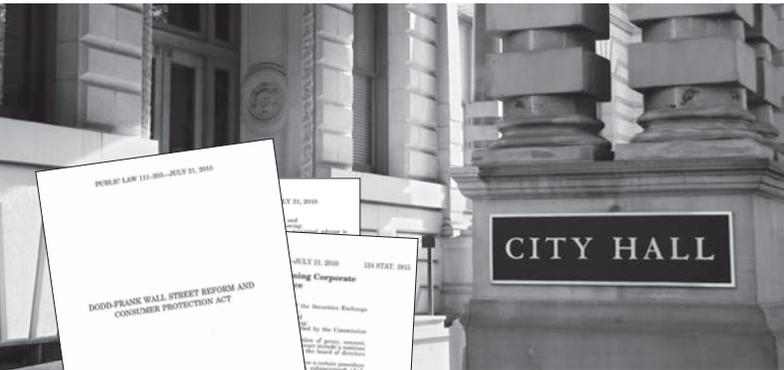
The truly public purpose of the \$3 trillion municipal securities market makes it unique among capital markets. In addition to rulemaking, the MSRB supports the fair and efficient operation of the municipal market by collecting and freely disseminating crucial market data and documents through our Electronic Municipal Market Access (EMMA) website. We are continually enhancing our market transparency efforts and will make numerous changes in 2011 that will benefit all market participants. Please read more about all our mission-driven activities on the following pages.

The MSRB is charting a new course to help protect the integrity of the municipal market. I look forward to leading this effort.

Sincerely,



Michael G. Bartolotta
Chair, Municipal Securities
Rulemaking Board



The Dodd-Frank Act broadened the mission of the MSRB to include the protection of municipal issuers and others whose credit stands behind municipal bonds and public pension plans.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law by President Barack Obama on July 21, 2010. This law on regulation of U.S. capital markets represented Congress' response to the financial market instability that peaked in 2008. The Dodd-Frank Act included multiple provisions that affect the municipal market and the MSRB. These provisions became effective on October 1, 2010. Specifically, Section 975 of the Dodd-Frank Act broadened the mission of the MSRB to include the protection of municipal issuers and others whose credit stands behind municipal bonds—such as universities and hospitals—and public pension plans. This mandate is in addition to the MSRB's mission to protect investors and the public interest, which the MSRB has undertaken since 1975.

The Dodd-Frank Act also expanded the jurisdiction of the MSRB to include the regulation of municipal advisors. Municipal advisors include businesses and individuals that advise municipal entities concerning municipal financial products and municipal securities, as well as businesses and individuals who solicit certain types of business from municipal entities on behalf of unrelated broker-dealers, municipal advisors, or investment advisors. Municipal securities dealers performing financial advisory services were previously subject to MSRB regulation because of their municipal securities dealer activities. Most municipal advisors are subject to MSRB regulation for the first time.

Another important aspect of the Dodd-Frank Act is that it created, for the first time, an MSRB Board of Directors that is made up of a majority of public, independent members and includes municipal advisor representatives. Since being created by Congress in 1975, the MSRB had been governed by a board with a majority of industry members. The new structure contains a balance of regulated and non-regulated Board members, with investors, municipal entities, securities dealers, bank dealers and municipal advisors each having representation on the MSRB Board of Directors. The current Board of Directors was seated on October 1, 2010.

The Dodd-Frank Act provides that the rules promulgated by the MSRB for municipal advisors must, among other things: (1) promote fair dealing, the prevention of fraudulent and manipulative acts and practices, and the protection of investors, municipal entities, and obligated persons; (2) prescribe means reasonably designed to prevent acts, practices, and courses of business that are not consistent with a municipal advisor's fiduciary duty to its municipal entity clients; (3) prescribe professional standards; (4) provide continuing education requirements; (5) provide for periodic examinations; (6) provide for recordkeeping and record retention; and (7) provide for reasonable fees and charges necessary or appropriate to defray the costs and expenses of operating and administering the Board. MSRB rules may not impose a regulatory burden on small municipal advisors that is not necessary or appropriate in the public interest and for the protection of investors, municipal entities, and obligated persons, provided that there is robust protection of investors against fraud.

In addition to empowering the MSRB to write new municipal market regulations, the Dodd-Frank Act permits the MSRB to create market information systems and charge reasonable fees for persons, other than issuers and obligated persons, to submit and receive data from these systems. The MSRB is also permitted to charge reasonable fees for subscriptions to its market data services.

“The [Dodd-Frank Act] expanded the authority of the MSRB in recognition of the MSRB’s deep and specialized expertise...”

~Senate Banking Committee Chairman Christopher Dodd

Enforcement support and coordination among the MSRB, the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) was enhanced by the Dodd-Frank Act. Under its provisions, the MSRB may provide guidance and assistance to fellow regulators on the enforcement of MSRB rules, and the SEC and FINRA are required to seek MSRB guidance regarding interpretations of MSRB rules. The MSRB also may charge regulated entities for late submissions of data and may share in fines collected by the SEC and FINRA for noncompliance with MSRB rules.

Full Title	Publication Date	Notice Number	Rule Number	Notice Type
MSRB Publishes SHORT System Technical Specifications for SEC-Approved Additional Increases in Transparency of Municipal Auction Rate Securities and Variable Rate Demand Obligations	12/29/2010	2010-61	Rule G-34	Regulatory Announcement
MSRB Municipal Advisor Registration Deadline and SEC Guidance on Definition of Municipal Advisor	12/29/2010	2010-60		Regulatory Announcement
MSRB Fair Dealing Rule for Municipal Advisors Approved	12/23/2010	2010-59	Rule G-17	Regulatory Announcement
MSRB Reminder About Los Angeles, CA Outreach Seminar	12/20/2010	2010-58		Regulatory Announcement
Reminder: Interpretation on Dealer-Controlled Political Action Committees Under Rule G-37	12/17/2010	2010-57	Rule G-37	Regulatory Announcement

The MSRB Rulemaking Program maintains municipal market rules designed to protect investors and municipal entities, and to support a fair and efficient market. Timely and well-informed rulemaking and interpretive guidance responsive to changing market conditions are critical to the MSRB's mission. In addition to announcing rule changes that affect market participants, the MSRB frequently publishes interpretive notices providing guidance on the application of MSRB rules.

During 2010, the MSRB Rulemaking Program advanced key investor and issuer protections, established registration rules for municipal advisors and enhanced municipal market disclosure and transparency, among other initiatives.

FAIR DEALING AND FAIR PRICING REQUIREMENTS

Dealers in municipal securities are required by MSRB rules to deal fairly with all persons and refrain from engaging in deceptive or unfair conduct. In August 2010, the MSRB interpreted its "fair dealing" rule (MSRB Rule G-17)

to strengthen its requirement that underwriters give priority to customer orders over orders for their own or related accounts for new issues of municipal bonds. To foster a fair and efficient market, the MSRB seeks broad distribution of newly issued municipal securities and the new guidance supports that goal. The interpretive guidance also seeks to ensure that issuers' wishes are met with respect to distribution of their securities to individual investors.

MSRB Rule G-18 subjects broker's brokers to fair pricing requirements. In September 2010, the MSRB requested public comment on guidance to broker's brokers related to issues of fair pricing and fair practice when effecting transactions for other dealers. The proposed guidance notes that a broker's broker must exercise the same care and diligence in making a reasonable effort to obtain a fair price as it would if the transaction was being undertaken for its own account.

In late 2010, the MSRB extended MSRB Rule G-17 to the activities of municipal advisors. It now requires municipal advisors, as well as dealers, to deal fairly with all persons and not engage in unfair or deceptive practices.

OBLIGATIONS TO INVESTORS

The MSRB periodically issues guidance that reminds dealers of existing rules to help ensure that they remain alert to the need to remain fully compliant with the MSRB's fair practice and other marketplace requirements. In September 2010, the MSRB, in coordination with FINRA, published a notice providing a consolidated discussion of a number of prior MSRB interpretations on dealers' obligations to customers, including standards of professionalism

and fair practice, and the obligation of dealers to understand bonds they sell as part of their disclosure, suitability and fair pricing duties. In every municipal security transaction, dealers must obtain, analyze and disclose all material facts known to the dealer, or that are reasonably accessible to the market through established industry sources, including the MSRB's EMMA website.

CONFLICTS OF INTEREST

MSRB rules seek to prohibit real and perceived conflicts of interest in the activities of municipal securities underwriters. "Pay-to-play" conduct, by which a municipal market professional makes a political contribution in order to be considered for bond business with an issuer, damages public confidence in the municipal market. The MSRB's core pay-to-play rule—Rule G-37—ensures that these potential conflicts of interest are minimized, and the MSRB revises the rule or provides additional interpretive guidance from time to time in light of new trends.

In February 2010, the MSRB established dealer disclosure requirements related to certain bond ballot campaign contributions. Many municipalities and school districts are required to obtain voter approval prior to the issuance of municipal bonds and conduct related bond ballot campaigns during the election season. To improve public awareness of dealers' financial contributions to bond ballot campaigns, dealers are now required to provide disclosures of such contributions to the MSRB, which makes them available on its website for public scrutiny.

The MSRB's rules on political contributions extend to political action committees, or PACs, that are controlled by dealers. In 2010, the MSRB reviewed these PACs and clarified through interpretive guidance factors that may result in a PAC of a dealer's corporate affiliate being viewed as controlled by the dealer itself or by one of its municipal finance professionals. If a PAC is controlled by a dealer, it is subject to the MSRB's pay-to-play restrictions.

529 COLLEGE SAVINGS PLANS

MSRB rules require primary distributors of 529 college savings plans to submit plan disclosure documents along with any amendments to the MSRB's EMMA system. In June 2010, MSRB reminded primary distributors that they must exercise due care regarding the timeliness and accuracy of the 529 college savings plan information submitted to EMMA.

MARKET TRANSPARENCY

The MSRB provides much-needed market transparency for the auction rate securities (ARS) and variable rate demand obligation (VRDO) markets by collecting ARS and VRDO interest rate and related information through its Short-term Obligation Rate Transparency ("SHORT") System and publishing the information on EMMA. ARS and VRDOs are long-term securities with interest rates that reset on a short-term basis.

The MSRB began collecting ARS and VRDO interest rate reset information in 2009. In August 2010, the MSRB began moving toward expanded ARS and VRDO market transparency. The SEC approved the MSRB's plan to collect and disseminate through EMMA additional interest rate and descriptive information about variable rate securities from dealers under amended MSRB Rule G-34. These additional disclosures include documents that set forth auction procedures and contain bidding information, and also provide important information about letters of credit and other liquidity facilities that support many VRDOs, including copies of the liquidity facilities themselves.

The MSRB also recently began offering a subscription providing, in a real-time computer feed, the ARS and VRDO information available on the MSRB's EMMA website on an individual security basis.

MUNICIPAL ADVISOR REGISTRATION

In November 2010, the MSRB adopted municipal advisor registration rules pursuant to its new authority to regulate municipal advisors under the Dodd-Frank Act. All municipal advisors engaging in municipal advisory activities on or after October 1, 2010 were required to be registered with the MSRB by December 31, 2010. Beginning on January 1, 2011, all new municipal advisors must first register with the MSRB before engaging in municipal advisory activities.

The MSRB Professional Qualification Program fosters competency of municipal market professionals and compliance with MSRB rules through required licensing examinations and continuing education activities. The MSRB has established examinations for municipal securities representatives (Series 52), municipal securities principals (Series 53), municipal fund securities limited principals (Series 51) and, together with other securities regulators, general securities sales principals (Series 9/10). The MSRB also provides municipal securities content for the General Securities Representative Examination (Series 7) and the Financial and Operations Principal Examination (Series 27), established by FINRA. In 2010, the MSRB's Professional Qualifications Advisory Committee revised the outline for the Series 52 examination.

The MSRB's Professional Qualification Advisory Committee continuously reviews and updates the content of each of these examinations to ensure that they adequately test for the necessary knowledge and skills for engaging in municipal securities activities in light of new products, practices and regulatory requirements in the marketplace. The MSRB also is an active participant in the Securities Industry/Regulatory Council on Continuing Education, which provides advice and consultation to the various securities regulators on the development, implementation and ongoing operation of the securities industry-wide continuing education program.

The Dodd-Frank Act requires the MSRB to set standards of professional conduct for municipal advisors. The MSRB is undertaking extensive research and outreach to help determine appropriate municipal advisor qualifications. As a self-regulatory organization, the MSRB seeks input from municipal market participants and, in 2010, began soliciting such input regarding professional qualifications for municipal advisors.

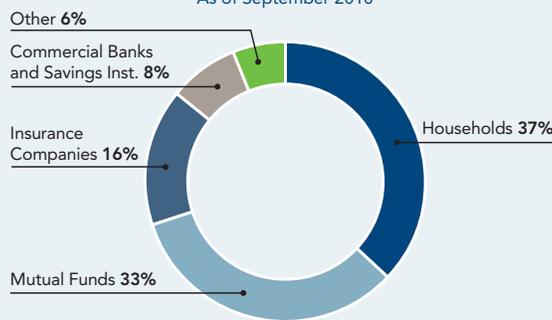
MUNICIPAL MARKET FACTS

ISSUANCE OF MUNICIPAL SECURITIES
2000-2010



Source: Thomson Reuters

HOLDERS OF MUNICIPAL SECURITIES OUTSTANDING
As of September 2010



Total: \$2,856.6 Billion
Source: Federal Reserve Flow of Funds

Regulatory Coordination and Enforcement Support

An important part of the MSRB's mission includes coordinating with other regulators to ensure compliance with MSRB rules, which are enforced by the SEC, FINRA and four bank regulators—the Federal Deposit Insurance Corporation, the Federal Reserve System, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

The MSRB Regulatory Coordination and Enforcement Support Programs facilitate market surveillance, inspection and enforcement of MSRB rules by providing these enforcement agencies with collected market information and analytical and statistical data, as well as with reports of potential rule violations that become known to the MSRB. The MSRB Regulatory Coordination and Enforcement Support Program serves to enhance the close coordination among the MSRB, the SEC, FINRA and the bank regulators.

The efficiency and quality of the MSRB's enforcement support increased in 2010 when the MSRB created its Regulator Web (RegWeb) application. RegWeb is a secure, web-based portal that provides enforcement agencies with access to real-time municipal securities transaction data. RegWeb also allows direct access to MSRB databases, providing a streamlined and effective means for enforcement agencies to obtain timely enforcement information.

The MSRB engages in activities designed to promote efficient and uniform enforcement of its rules and frequently meets with key regulators to provide training on MSRB market information transparency programs. The MSRB also coordinates with other regulators to ensure awareness and proper interpretation of MSRB rules.

The screenshot displays the MSRB Regulator Web interface. At the top, there is a navigation bar with the MSRB logo and links for 'MSRB Home' and 'Contact and Support'. Below this, a 'Logout' link is visible. The main content area is titled 'MSRB Regulator Web' and 'MSRB Registration Report - 30 Matching Records'. There are search and filter options including 'Search', 'Export', and 'Filter by Menu'. The table below lists various records with columns for MSRB ID, Organization Role, Realization Submission Date, SEC ID Verification Status, SEC ID Verification Date, Payment Verification Status, Payment Verification Date, Withdrawal Status, and Withdrawal Date. The records show a mix of 'Authorized' and 'Active' statuses across different dates in 2010.

MSRB ID	Organization Role	Realization Submission Date	SEC ID Verification Status	SEC ID Verification Date	Payment Verification Status	Payment Verification Date	Withdrawal Status	Withdrawal Date
	Municipal Advisor	This Week	Authorized	Any	Authorized	Any	Active	Any
A0079	MA	16-DEC-10	Authorized	16-DEC-10	Authorized	16-DEC-10	Active	n/a
A0323	MA	13-DEC-10	Authorized	13-DEC-10	Authorized	13-DEC-10	Active	n/a
A0489	MA	13-DEC-10	Authorized	14-DEC-10	Authorized	13-DEC-10	Active	n/a
A0763	MA	13-DEC-10	Authorized	14-DEC-10	Authorized	13-DEC-10	Active	n/a
A0979	MA	13-DEC-10	Authorized	13-DEC-10	Authorized	13-DEC-10	Active	n/a
A1007	MA	14-DEC-10	Authorized	14-DEC-10	Authorized	14-DEC-10	Active	n/a
A1091	MA	16-DEC-10	Authorized	16-DEC-10	Authorized	16-DEC-10	Active	n/a
A1126	MA	16-DEC-10	Authorized	16-DEC-10	Authorized	16-DEC-10	Active	n/a
A1329	MA	14-DEC-10	Authorized	14-DEC-10	Authorized	14-DEC-10	Active	n/a
A1689	MA	17-DEC-10	Authorized	17-DEC-10	Authorized	17-DEC-10	Active	n/a
A1733	MA	13-DEC-10	Authorized	13-DEC-10	Authorized	13-DEC-10	Active	n/a

The MSRB's RegWeb allows other market regulators to view the activities of regulated entities.

In 2010 the MSRB coordinated with FINRA to remind municipal securities firms of their obligation to fully understand the securities they sell in the primary and secondary market in order to comply with SEC and MSRB rules. The MSRB also worked with FINRA to develop and maintain an enforcement tool for FINRA for use in enforcing MSRB Rule G-32 on disclosures in connection with primary offerings.

The Dodd-Frank Act formalized and expanded the MSRB's role in providing enforcement and compliance examination support and provided for further coordination among the MSRB, the SEC and FINRA to ensure vigorous enforcement of MSRB rules. The MSRB, SEC and FINRA held their first statutorily required coordination meeting under the Dodd-Frank Act in December 2010.

EMMA is a centralized online resource providing free public access to a database of official disclosure documents associated with municipal bonds issued in the United States.

MSRB Market Information Transparency Programs provide for the collection and dissemination of municipal market documents and data. The MSRB collects information from municipal market participants, including dealers and municipal issuers, and makes it freely available to the public on its EMMA website.

EMMA is a centralized online resource providing free public access to a database of official disclosure documents associated with municipal bonds issued in the United States. EMMA also provides real-time trade data for approximately 1.5 million outstanding municipal bonds and current interest rates for variable rate securities. The MSRB Market Information Transparency Programs also support electronic subscription services that further disseminate the municipal market data and documents collected by the MSRB.

OFFICIAL STATEMENTS

The MSRB Primary Market Disclosure Program collects and makes available electronic official statements, advance refunding documents and primary offering data for municipal securities. In 2010, the MSRB received approximately 15,000 official statements from underwriters. As of December 2010, EMMA housed more than 250,000 official statements and other primary market documents.

CONTINUING DISCLOSURES

The MSRB Continuing Disclosure Program receives electronic submissions of continuing disclosure documents—including annual operating data, annual financial data, event-based disclosures and voluntary disclosures—and related information from issuers and obligated persons. The MSRB provides public access to this information on EMMA. In 2010, the MSRB received 131,191 continuing disclosures from issuers and obligated persons.

During 2010, the MSRB made several enhancements to EMMA related to continuing disclosures, including improvements to EMMA's search capabilities and allowing investors to sign up for an unlimited number of email alerts that are sent when a continuing disclosure is posted for a particular security.

Also in 2010, the Securities and Exchange Commission amended Rule 15c2-12 to expand the list of required event-based disclosures made by issuers and obligated persons to include tender offers; bankruptcy, insolvency, receivership or similar proceeding; mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their

termination, if material; and the appointment of a successor or additional trustee or the change of the name of a trustee, if material. The MSRB made associated changes to EMMA in December 2010 to permit issuers and obligated persons to comply with the new requirements. These additional disclosures will provide important information about events that may impact bondholders and provide enhanced market transparency for investors, market analysts and other market participants.

VARIABLE RATE SECURITIES DATA

The MSRB Short-term Obligation Disclosure Program collects from dealers and disseminates on EMMA, critical market information about auction rate securities (ARS) and variable rate demand obligations (VRDOs). The program allows the MSRB to provide the only centralized, comprehensive database of current interest rate resets for ARS and VRDOs.

Approximately 1.26 million VRDO interest resets were reported to the MSRB between April 2009 and May

2010, the time period analyzed for the report. Approximately 44,000 ARS interest rate resets were reported to the MSRB between February 2009 and May 2010.

Interest rate reset information is publicly displayed on EMMA on a security-to-security basis. In September 2010, the MSRB made this same data available through an electronic subscription.

In 2011, the MSRB will provide even more disclosure associated with variable rate securities by collecting and making available bank liquidity agreement documents for variable rate demand obligations and bidding information for auction rate securities. This additional disclosure will improve transparency for investors seeking to evaluate critical information about the level of dealer support and underlying liquidity of auctions for variable rate securities.

TRANSACTION DATA

The MSRB Transaction Data Program collects and disseminates transaction price data to the market through EMMA. Data collected from dealers

include trade date and time, settlement date, par amount, CUSIP number, price, as well as other information. The MSRB offers subscription services, providing real-time, comprehensive and historical trade information. On a typical trading day in 2010, the MSRB collected and disseminated information on an average 40,000 trades. During 2010, the MSRB collected data on more than 10 million trades.

POLITICAL CONTRIBUTIONS DISCLOSURES

The MSRB Political Contribution Disclosure Program collects and makes available to the public on the MSRB website, www.msrb.org, all political contribution disclosure documents from dealers. Market participants and investors are able to view information about dealer political contributions and assess any financial relationships between dealers and the issuers with whom they are doing business.

During 2010, the MSRB Political Contribution Disclosure Program began collecting for public display, disclosures regarding contributions made by dealers to bond ballot campaigns.

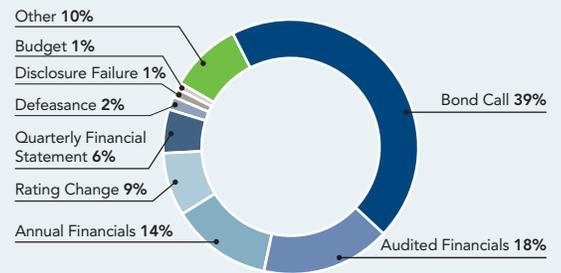
MUNICIPAL MARKET FACTS

PAGE VIEWS ON EMMA 2010



Source: MSRB

CONTINUING DISCLOSURE SUBMISSIONS TO EMMA 2010



Source: MSRB

Total: 131,191



The MSRB Education and Outreach Program ensures communication between the MSRB and municipal market participants, and raises awareness about MSRB’s initiatives. Through conferences, webinars, industry panels, seminars and other venues, the MSRB provides information to the municipal bond community, policymakers and other interested parties. The MSRB’s websites—www.msrb.org and www.emma.msrb.org—also serve as education and outreach tools, and provide freely accessible information about the market and municipal securities.

In 2010, the MSRB’s redesigned website provided a new platform for making timely information about market regulation available to regulated entities, investors and municipal entities that issue municipal securities. New information is continually added to the site, making it easy for anyone interested in the market to follow regulatory developments, including the changes effected by the Dodd-Frank Act.

In 2010, the MSRB continued outreach to dealers by co-hosting five regulatory and compliance seminars around

the country with the Bond Dealers of America (BDA) and the Securities Industry and Financial Markets Association (SIFMA). The events included staff from the Financial Industry Regulatory Authority, the Securities and Exchange Commission and the Internal Revenue Service and provided hundreds of dealers and other market participants with updates on municipal market regulations and how they can best comply with the rules.

In late 2010 the MSRB, for the first time, conducted outreach events dedicated to educating all market participants—and especially newly regulated entities—about the MSRB. Hundreds of participants attended events in New York and Chicago that provided an in-depth update on the MSRB’s expanded mission and jurisdiction, and the development of rules for municipal advisors.

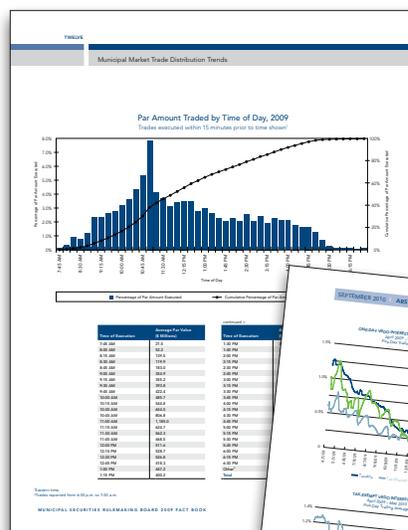
The MSRB also hosted outreach receptions for members of the municipal bond communities in Austin, TX and Philadelphia, PA, and made presentations throughout the year for the municipal bond issuer and investor groups about the MSRB’s EMMA website and continuing disclosure in the municipal market.

The MSRB’s senior and legal and policymaking staff participated in nearly two dozen presentations at major industry events throughout the year, providing updates about regulatory changes and developments that affect market participants. This outreach effort increased significantly during the summer and fall of 2010 with the enactment of the Dodd-Frank Act.

The MSRB Research Program supports the MSRB's education and policymaking efforts of the MSRB by producing and disseminating statistics about the municipal market. Municipal market trading trends and statistics published on the MSRB's EMMA website (www.emma.msrb.org) provide investors and other market participants with comprehensive data on municipal bonds available. The Market Statistics section of EMMA is updated daily with new trading information from the previous day's activity.

The MSRB also provides official market data to numerous federal regulatory organizations, including the SEC, the Department of the Treasury and the Federal Reserve, and to Congress.

The MSRB Research Program produces periodic statistical reports, most notably an annual Fact Book, which provides a comprehensive reference for historical trade data and statistics about the \$2.9 trillion municipal bond market. The 2010 Fact Book included new information about interest rate resets and trading data for auction rate securities (ARS) and variable rate demand obligations (VRDOs). The MSRB began collecting this data in early 2009.



In September 2010, the MSRB published, for the first time, a report summarizing interest rate and other information about ARS and VRDOs collected by the MSRB.

Also in 2010, the MSRB published a follow-up report reviewing 2009 issuance and trade activity of Build America Bonds.

The MSRB Research Program provides electronic versions of its Fact Books and all of its reports to the public for free.



The MSRB Market Leadership program seeks to provide independent advice and guidance to policymakers in addressing issues affecting the protection of investors and municipal entities in the municipal market. This objective is accomplished through the MSRB's interaction with leaders at other regulatory agencies, involvement in federal policy development and participation in discussions about ongoing industry issues.

The MSRB also conducts roundtable events to bring together market participants for discussion about legislation, trends and activities affecting the municipal securities market. In early 2010, the MSRB held its annual MSRB Roundtable as well as a regulatory roundtable on the topic of Build America Bonds. The MSRB's annual Roundtable includes a wide range of municipal market participants, including investors, state and local government finance officials, bankers, municipal analysts, dealers, bond counsel, housing agencies and industry associations.

The Dodd-Frank Act was signed into law July 21, 2010. The Dodd-Frank Act significantly altered regulation of the U.S. capital markets, including subjecting municipal advisors encompassing swap advisors to the MSRB's jurisdiction beginning October 1, 2010. The MSRB continues to work with staff of the House Financial Services Committee and the Senate Banking Committee to discuss the MSRB's implementation of the Dodd-Frank Act. The MSRB also is working with the Commodity Futures Trading Commission to ensure consistent regulation regarding the swap provisions of the Dodd-Frank Act.

In December 2010, the MSRB participated in a field hearing on municipal market issues held by the SEC. The MSRB also provided leadership in 2010 by convening its issuer and investor advisory groups to discuss vital topics affecting municipal financing, including timely issuer disclosure.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee Municipal Securities Rulemaking Board

We have audited the accompanying statements of financial position of the Municipal Securities Rulemaking Board (MSRB), as of September 30, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSRB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board as of September 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McLean, Virginia
December 2, 2010

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STATEMENTS OF FINANCIAL POSITION

<i>September 30,</i>	2010	2009
Assets		
Cash	\$ 1,736,866	\$ 1,474,170
Accounts receivable, net	3,927,581	3,687,655
Accrued interest receivable	72,998	162,753
Other assets	208,804	185,141
Investments	16,228,328	18,244,014
Fixed assets, net	7,586,312	7,023,931
Total Assets	\$ 29,760,889	\$ 30,777,664
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,137,604	\$ 1,610,020
Accrued vacation payable	758,728	705,944
Deferred rent	1,814,979	1,907,295
Deferred compensation	114,252	70,288
Note payable	—	97,629
Total Liabilities	3,825,563	4,391,176
Net Assets—Unrestricted	25,935,326	26,386,488
Total Liabilities and Net Assets	\$ 29,760,889	\$ 30,777,664

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30,	2010	2009
Revenue		
Underwriting assessment fees	\$ 13,984,780	\$ 10,837,652
Transaction fees	6,940,551	7,150,905
Annual fees	1,010,321	622,700
Data subscriber fees	509,547	441,392
Professional qualifications examination fees	92,220	—
Initial fees	8,500	8,400
Investment return	92,715	533,667
Publications and other income	41,612	33,268
Total Revenue	22,680,246	19,627,984
Expenses		
Market information transparency programs and operations	11,319,323	10,073,932
Administration and operations	5,909,092	5,612,560
Rulemaking and policy development	3,030,192	2,994,537
Board and committee	1,625,522	1,473,049
Professional qualifications	463,133	616,748
Education and communications	784,146	510,434
Total Expenses	23,131,408	21,281,260
Change in Net Assets	(451,162)	(1,653,276)
Net Assets, beginning of year	26,386,488	28,039,764
Net Assets, end of year	\$ 25,935,326	\$ 26,386,488

STATEMENTS OF CASH FLOWS

Year ended September 30,	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ (451,162)	\$ (1,653,276)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	3,252,682	2,134,129
Net amortization of investment discounts	187,974	102,293
Unrealized loss on investments	212,133	116,015
Bad debt expense	31,265	9,828
Loss on disposal of fixed asset	3,980	—
Changes in assets and liabilities:		
Accounts receivable	(271,191)	(1,038,807)
Accrued interest receivable	89,755	53,664
Other assets	(23,663)	(95,167)
Accounts payable and accrued liabilities	(472,416)	(24,786)
Accrued vacation payable	52,784	434,655
Deferred rent	(92,316)	(37,873)
Deferred compensation	43,964	41,024
Net Cash Provided by Operating Activities	2,563,789	41,699
Cash Flows from Investing Activities		
Purchases of fixed assets	(3,819,043)	(5,065,567)
Purchases of investments	(8,709,421)	(3,078,591)
Maturities of investments	10,325,000	8,300,000
Net Cash (Used in) Provided by Investing Activities	(2,203,464)	155,842
Cash Flows from Financing Activities		
Proceeds from note payable	—	121,576
Payments on note payable	(97,629)	(23,947)
Net Cash (Used in) Provided by Financing Activities	(97,629)	97,629
Net Increase in Cash	262,696	295,170
Cash, beginning of year	1,474,170	1,179,000
Cash, end of year	\$ 1,736,866	\$ 1,474,170
Supplemental Information		
Interest paid	\$ 4,920	\$ 1,719
Taxes paid	13,739	—

NOTE A—NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (MSRB) was established in 1975 pursuant to authority granted by the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975, as an independent, self-regulatory organization charged with protecting investors and the public interest by promoting a fair and efficient municipal securities market through rulemaking on the municipal securities activities of broker-dealers and banks. Effective May 17, 1989, MSRB became incorporated as a not-for-profit, non-stock corporation in the Commonwealth of Virginia. The MSRB also collects and disseminates market information, and operates the Electronic Municipal Market Access (EMMA) website to promote transparency and widespread access to information.

As discussed further in Note M, on October 1, 2010, the MSRB's mission was expanded by the Dodd-Frank Wall Street Reform and Consumer Protection Act to also protect municipal entities and obligated persons and to undertake rulemaking in connection with the municipal advisory activities of municipal advisors.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

MSRB's financial statements are prepared using the accrual basis of accounting in accordance with the generally accepted accounting principles in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, as well as 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 and the carrying value of investments. Actual results could differ from those estimates.

Investments

Investments are stated at fair value as determined by quoted market prices. Investments consist of U.S. Treasury Notes, government guaranteed agency securities and mutual funds. The U.S. Treasury Notes have various maturity dates through April 2011. MSRB holds a 457(f) Rabbi Trust that is comprised entirely of mutual funds.

Amortization and accretion of investment premiums and discounts are recorded as a component of unrealized gains and losses.

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 reviews. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Fixed Assets

Furniture and fixtures, as well as office equipment, are recorded at cost and are depreciated using the straight-line method over five years and three years, respectively. 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 reported in the statements of activities and changes in net assets.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability.

Capitalized Software Costs

MSRB capitalizes certain costs associated with computer software developed or obtained for internal use. MSRB's policy provides for the capitalization of external direct costs of materials and services, and directly related payroll related costs incurred during the application development stage as well as costs related to upgrades and enhancements to internal use 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 is completed and the software is ready for its intended use, internally developed software costs are amortized using the straight line method over its estimated useful life.

Impairment of Long-lived Assets

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.

No events or changes in circumstances during 2010 and 2009 indicated that the carrying amount of long-lived assets may not be recoverable.

Leases

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

Underwriting Assessment Fees

The underwriting assessment fee is equal to a percentage of the face amount of certain municipal securities, which are purchased from an issuer as part of a new issue. Prior to December 1, 2009, the fee charged was .001 percent or .003 percent of the par value of the offerings, depending on the type of offering, as specified in Board Rule A-13. In September 2009, the MSRB filed a change to Rule A-13. Beginning December 1, 2009, the MSRB applied its underwriting assessment of \$.03 per \$1,000 paid by underwriters of most primary offerings that were previously exempt from the assessment.

These securities include those (i) with a par value of less than \$1 million, (ii) sold in certain limited offerings or private placements, (iii) that are puttable back to the issuer every nine months or less, such as variable rate demand obligations, and (iv) with a final stated maturity of nine months or less. Commercial paper and municipal fund securities will continue to be exempt from the assessment. The change in assessments also applied the \$.03 per \$1,000 assessment rate rather than the rate of \$.01 per \$1,000 to all offerings subject to the assessment.

Revenue from underwriting assessment fees is recognized when the underwriter files the offering statement with MSRB.

Transaction Fees

The transaction fee is one-half cent per \$1,000 par value of bonds and is levied on both customer and inter-dealer transactions as specified in Board Rule A-13. As described in this rule, certain transactions are exempt from this fee.

Transaction fee revenue is recognized as sales transactions are settled. Unbilled receivables consist primarily of September transaction fees revenue billed in October.

Annual Fees

With respect to each fiscal year of MSRB in which a municipal securities broker or dealer conducts business, the broker or dealer is required to pay an annual fee per rule A-14. The rate increased on October 1, 2009 from \$300 to \$500. Revenue is recognized when brokers or dealers are billed annually.

Data Subscriber Fees

MSRB collects, stores, and provides access to information pertaining to the municipal securities market. At the beginning of the fiscal year 2009, MSRB operated three computer-based information systems that offered data subscription for a fee: an electronic document system for the collection, storage, and dissemination of official statements and advance refunding documents (the OS/ARD system); a broadcast system for collection and dissemination of material events and notices from municipal securities issuers (the CDI system); and the collection, processing, and dissemination of all municipal securities transactions for purposes of price transparency and surveillance (the RTRS system). On June 1, 2009, MSRB placed into operation a new electronic document system for the collection, storage, and dissemination of official statements and advance refunding documents (the EMMA primary market disclosure system), which replaced the OS/ARD system. On July 1, 2009, MSRB placed into operation a new electronic document system for the collection, storage, and dissemination of continuing disclosure documents from municipal securities issuers, obligated persons and their agents (the EMMA continuing disclosure system), at which time the CDI system was terminated. Information in these systems is sold to subscribers on a subscription basis with quarterly billing in arrears. In addition, MSIL maintains files for public access of information submitted by municipal securities brokers and dealers in connection with political contributions and municipal securities business under MSRB Rule G-37. Copying fees are levied at time of use for the reproduction of any documents.

Initial Fees

The initial fee is a one-time fee of \$100 which is to be paid by every municipal securities broker or dealer upon registration with the MSRB. Initial fee revenue is recognized when received.

Professional Qualification Examination Fees

In November 2009, the MSRB filed a new rule: A-16. This rule establishes an examination fee of \$60 assessed on persons taking certain qualification examinations as of January 4, 2010. These examinations include the Series 51 (Municipal Fund Securities Limited Principal Qualification Examination), Series 52 (Municipal Securities Representative Qualification Examination), and Series 53 (Municipal Securities Principal Qualification Examination).

Concentration of Credit Risk

Financial instruments which potentially subject MSRB to a concentration of credit risk consist principally of cash and accounts receivable. Cash balances at times are in excess of federally insured amounts and, as a result, subject MSRB to a degree of credit risk. As of September 30, 2010 and 2009, MSRB's uninsured cash balance amounts to \$1,236,866 and \$1,187,314, respectively. MSRB's policy is to limit credit risk by depositing its funds with high quality financial institutions. Accounts receivable consist of fees due from municipal securities brokers and dealers. At times, there are certain significant balances due from individual municipal securities brokers and dealers.

NOTE C—INVESTMENTS

Investments consist of the following at September 30:

	2010	2009
U.S. treasury notes and bills	\$ 6,838,004	\$ 15,124,309
Guaranteed agency securities	9,263,250	3,037,500
Mutual fund	127,074	82,205
	\$ 16,228,328	\$ 18,244,014

Investment return consists of the following for the years ended September 30:

	2010	2009
Interest and dividends	\$ 304,848	\$ 649,682
Unrealized losses	(212,133)	(116,015)
	\$ 92,715	\$ 533,667

NOTE D—FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash, receivables, accounts payable and accrued expenses, approximate fair value as of September 30, 2010 and 2009 because of the relatively short duration of these instruments.

MSRB's policy defines fair value, uses a framework for measuring fair value and provides a fair value hierarchy based on observable inputs.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 – Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity.

MSRB considers observable data to be that market data that is 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.

Investments were recorded at fair value as of September 30 based on the following level of hierarchy:

2010	Level 1	Level 2	Level 3	Total
U.S. treasury notes and bills	\$ 6,838,004	\$ —	\$ —	\$ 6,838,004
Government guaranteed agency securities	4,263,850	4,999,400	—	9,263,250
Mutual funds	127,074	—	—	127,074
	<u>\$11,228,928</u>	<u>\$4,999,400</u>	<u>\$ —</u>	<u>\$16,228,328</u>
2009	Level 1	Level 2	Level 3	Total
U.S. treasury notes	\$ —	\$15,124,309	\$ —	\$15,124,309
Government guaranteed agency securities	—	3,037,500	—	3,037,500
Mutual funds	82,205	—	—	82,205
	<u>\$ 82,205</u>	<u>\$18,161,809</u>	<u>\$ —</u>	<u>\$18,244,014</u>

NOTE E—ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30:

	2010	2009
Billed accounts receivable	\$ 3,436,286	\$ 3,219,087
Unbilled accounts receivable	726,846	672,854
	<u>4,163,132</u>	<u>3,891,941</u>
Less: allowance for doubtful accounts	(235,551)	(204,286)
	<u>\$ 3,927,581</u>	<u>\$ 3,687,655</u>

NOTE F—FIXED ASSETS

Fixed assets consist of the following as of September 30:

	2010	2009
Leasehold improvements	\$ 1,421,356	\$ 1,526,238
Office equipment	2,350,974	1,845,781
Furniture and fixtures	1,418,815	1,366,767
Capitalized software costs	15,177,590	12,156,135
	<u>20,368,735</u>	<u>16,894,921</u>
Less: accumulated depreciation and amortization	(12,782,423)	(9,870,990)
	<u>\$ 7,586,312</u>	<u>\$ 7,023,931</u>

As of September 30, 2010 and 2009, accumulated amortization for capitalized software costs amounts to \$9,051,895 and \$6,218,569, respectively.

Depreciation and amortization expense during the fiscal year are as follows:

	2010	2009
Depreciation expense	\$ 419,355	\$ 275,078
Amortization expense for capitalized software cost	2,833,327	1,859,051
	<u>\$ 3,252,682</u>	<u>\$ 2,134,129</u>

NOTE G—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2010	2009
Accounts payable	\$ 686,859	\$ 887,936
Salaries, taxes and benefits payable	264,290	666,509
Other accrued expenses	186,455	55,575
	<u>\$ 1,137,604</u>	<u>\$ 1,610,020</u>

NOTE H—NOTE PAYABLE

In May 2009, MSRB entered into a financing agreement for the purchase of software and annual software support. The agreement calls for an initial payment of \$10,000 due in June 2009 and quarterly payments of \$13,947 through July 2011. Payments under this agreement totaled \$97,629 and \$23,947 for the fiscal year ended September 30, 2010 and 2009, respectively.

The debt was extinguished in May 2010.

NOTE I—COMMITMENTS

Operating Leases

MSRB leases office space and certain office equipment under operating lease arrangements. In May 2001, MSRB moved its headquarters from Washington, D.C. to a new office space in Alexandria, Virginia, and entered into a lease which will expire in fiscal year 2016. The operating lease agreement for this office space contains provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on a straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent which is included in the liabilities in the accompanying statements of financial position.

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

Year ending September 30,

2011	\$ 1,691,992
2012	1,771,344
2013	1,833,336
2014	1,897,512
2015	1,963,920
Thereafter	998,844
Total minimum lease payments	\$ 10,156,948

Total rent expense for office space and equipment for the years ended September 30, 2010 and 2009, was \$2,226,223 and \$2,468,189, respectively.

Employment Agreements

As of September 30, 2005, MSRB had an employment agreement with its former Executive Director, based in major part on the employment agreement first agreed to by the parties on October 1, 1992, which provided, inter alia, for a specific term, salary, general employee benefits, and certain other benefits, including a supplemental retirement plan, life insurance, and others. On May 12, 2005, a new contract was entered into by the parties with a term ending on September 30, 2007. The contract calls for medical benefits to be provided to the Executive Director and his spouse for a term ending on December 2012. As of September 30, 2010 and 2009, MSRB has included a liability related to this benefit of \$71,402 and \$102,787, respectively, in salaries, taxes and other benefits payable.

An employment agreement dated May 25, 2007 was entered into by MSRB and its new Executive Director with term ending May 31, 2010. A new agreement (dated September 15, 2009) was entered into by both parties under which the Executive Director is to receive deferred compensation (457(f) contribution) of \$10,000 on September 30, 2010, \$50,000 on September 30, 2011, and \$55,000 on September 30, 2012. The sum, including all earnings and interest accrued, will be paid on September 30, 2012, or such time set ear-

lier as set forth by the agreement. During the fiscal years 2010 and 2009, MSRB has made payments of \$35,000 and \$30,000, respectively, into a 457(f) account. As of September 30, 2010 and 2009, the account is comprised of mutual funds and has been reflected as a component of MSRB's investments. MSRB has recorded a deferred compensation liability of \$114,252 and \$70,288 as of September 30, 2010 and 2009, respectively.

In addition to the above agreement, MSRB entered into separation agreements in 2009 with four former employees of MSRB. As of September 30, 2010 and 2009, MSRB has recorded a liability related to these agreements of \$423 and \$148,842, respectively, in salaries, taxes and other benefits payable.

NOTE J—RETIREMENT PLAN

MSRB has a defined contribution pension plan for all employees. Participation commences upon completion of one month of eligible service as described in the plan document. For all active participants employed on the first day of the calendar quarter, MSRB makes a quarterly contribution as required by the plan document. These contributions are based on the participants' quarterly compensation for the calendar quarter immediately preceding the first day of the calendar quarter. The contribution percentage ranges from 9 percent to 12 percent depending on the length of vested service as scheduled 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. MSRB made contributions to the plan totaling \$673,593 and \$625,112 for the years ended September 30, 2010 and 2009, respectively.

All administrative expenses of the plan are paid by MSRB. Administrative expenses totaled \$18,014 and \$17,453 for the years ended September 30, 2010 and 2009, respectively.

NOTE K—INCOME TAXES

MSRB is exempt from taxes on income other than unrelated business income under Section 501(c)(6) of the Internal Revenue Code, and applicable income tax regulations of the Commonwealth of Virginia. No provision for income taxes has been made as of September 30, 2010 and 2009, since MSRB believes that there is no unrelated business income.

Effective September 30, 2010, MSRB adopted a new guidance that creates a single model to address uncertainty in tax positions and clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The impact of the adoption of this guidance did not have a material effect on the financial statements of MSRB. Prior to the adoption of this guidance, the determination of when to record a liability for a tax exposure was based on whether a liability was considered probable and reasonably estimable in accordance with guidance concerning recording of contingencies.

NOTE L—BOARD DESIGNATED NET ASSETS

By policy, MSRB generally maintains sufficient cash and liquid investments at a level not to exceed one year's expenses. Unrestricted net assets are designated for future capital projects, including technology systems, and to fund reserves for operating expenses.

NOTE M—SUBSEQUENT EVENTS

MSRB evaluated its September 30, 2010 financial statements for subsequent events through December 2, 2010, the date the financial statements were available to be issued. MSRB is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as disclosed below.

On September 30, 2010 MSRB filed with the Securities and Exchange Commission (SEC) fee proposals that would establish a new technology fee on municipal securities trades reported to the MSRB. Municipals securities dealers would be required to pay an assessment of \$1.00 per transaction for all sales transactions. The MSRB would use the funds generated by these fees to update, maintain and replace its technology systems. Additionally, this proposal would increase, for the first time in 10 years, the transaction fees paid by municipal securities dealers from \$.005 per \$1,000 par value to \$.01 per \$1,000 par value on most municipal securities sales transactions reported to the MSRB. The proposed fee increases are recommended to go into effect as of January 1, 2011 and are under consideration by the SEC.

Effective October 1, 2010, Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act broadened the mission of the MSRB to include the protection of municipal entities and obligated persons in addition to the protection of investors and the public interest. The Dodd-Frank Act also expanded MSRB's regulatory jurisdiction to cover municipal advisors who advise state and local governments and other municipal entities on municipal financial products and municipal securities. As a result, on November 1, 2010 MSRB filed rule changes to Rule A-12, governing one-time initial fees, and Rule A-14, governing annual fees, to include municipal advisors. As of November 15, 2010 the MSRB will begin registering and collecting these administrative fees, an initial fee of \$100 and an annual fee of \$500, as part of the registration process for municipal advisors.

The Dodd-Frank Act also provides, as of October 1, 2010, 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. The amounts actually realized by the MSRB under these provisions of the Dodd-Frank Act will be dependent on the level of enforcement by the SEC and FINRA of MSRB rules and is expected to vary considerably from year to year.

WHAT IS EMMA?

The **Electronic Municipal Market Access (EMMA) website**, at www.emma.msrb.org, is a centralized online database that provides free public access to official disclosure documents associated with municipal bonds issued in the United States. EMMA also provides real-time trade data for approximately 1.5 million outstanding municipal bonds, and current interest rates for auction rate securities and variable rate demand obligations. EMMA is operated by the Municipal Securities Rulemaking Board (MSRB), which regulates the municipal market.



HOW DOES EMMA HELP INVESTORS AND ISSUERS?

EMMA provides transparency of information for investors in the \$2.9 trillion municipal market and makes it easy—and free—for them to access information that can inform investment decisions. Municipal bond issuers use EMMA to submit disclosure documents and to learn about their own or comparable municipal securities. EMMA provides real-time trade data for each security, which allows investors and issuers to view the pricing of bonds in the secondary market and compare securities to each other.

WHAT MUNICIPAL BOND INFORMATION DOES EMMA PROVIDE?

- » Official statements and advance-refunding documents
- » Continuing disclosure documents
- » Real-time and historical trade data
- » Interest rates and auction results for municipal auction rate securities
- » Interest rates for municipal variable rate demand obligations
- » Daily market statistics

WHAT OTHER INFORMATION IS AVAILABLE ON EMMA?

EMMA provides information to help investors better understand the municipal market. This includes snapshots of daily trade data based on security size, sector, maturity and source of repayment, educational material about bonds and their associated documents, and a comprehensive glossary of municipal bond terms.

WHO USES EMMA?

Investors and others interested in accessing information about the municipal market utilize the free resources available on EMMA. Financial professionals also benefit from information on EMMA to assist them in evaluating securities. In addition,

members of the public, government officials and the media find valuable municipal market documents on EMMA. All information on EMMA is available free of charge. The MSRB also makes available, for a fee, real-time, electronic delivery of EMMA's documents and data.

HOW OFTEN IS INFORMATION ON EMMA UPDATED?

The MSRB collects and posts new information on EMMA every few minutes, including municipal bond-related documents and data about thousands of municipal bond trades. This continuous posting of information on EMMA makes it a constantly expanding, free database of documents and data available for researching the municipal bond market.

FINDING DOCUMENTS ON EMMA

The easiest way to search for an official statement or continuing disclosure on EMMA is to enter the CUSIP number associated with a particular security. Documents and data can also be found by entering the description of the bond issue, the state, maturity date, or date of issuance into the site's search feature.

WHAT ARE EMAIL ALERTS?

Investors and others can sign up to receive email alerts when disclosure documents for individual municipal securities are posted on EMMA. Each time a document is submitted for a particular security, EMMA will send an alert to anyone who has signed up to receive notification.

UPCOMING CHANGES TO EMMA

In 2011, the MSRB will make additional information available on EMMA about municipal variable rate securities, including bank liquidity agreement documents and bidding information. Also coming is additional information about the timing and preparation of issuers' annual financial disclosure.

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