

**I. Statement of Purpose**

The Audit and Risk Committee (“Committee”) is a standing committee of the Board of Directors (“Board”). The purpose of the Committee is to assist the Board in fulfilling its oversight responsibility relating to (i) the integrity of the Municipal Securities Rulemaking Board’s (MSRB) financial statements and financial reporting process and the MSRB’s systems of internal accounting and financial controls; (ii) the performance of the internal audit function; (iii) the annual independent audit of the MSRB’s financial statements; (iv) compliance by the MSRB with legal and regulatory requirements; (v) the evaluation of enterprise risk issues; and (vi) the fulfillment of the other responsibilities set out herein. In discharging its responsibilities, the Committee is not itself responsible for conducting audits or for any determination that the MSRB’s financial statements are complete and accurate or in accordance with generally accepted accounting principles.

**II. Organization**

*A. Charter*

At least annually, this charter shall be reviewed and reassessed by the Committee and any proposed changes shall be submitted to the Board for approval.

*B. Members*

The Committee shall be comprised of five members, three of whom shall be public members and two of whom shall be regulated members, selected by the Board Chair and presented to the Board for approval. A Committee Chair shall be appointed by the Board Chair from among the public Committee members. At least one Committee member shall have served on the Committee in the prior fiscal year.

*C. Meetings*

In order to discharge its responsibilities, the Committee shall each year establish a schedule of regular meetings. In planning the annual schedule of meetings, the Committee shall ensure that sufficient opportunities exist for its members: (i) to meet separately with the independent auditors, without management present; (ii) to meet separately with any internal auditor or any consultants, without management present; (iii) to meet separately with management, without the independent auditors, any internal auditor or any consultants present; and (iv) to meet in private with only the Committee members present. Special meetings may be called by the Committee Chair upon one calendar day prior notice, provided that such advance notice may be waived by unanimous consent of all Committee members attending such meeting. Notice of a special meeting need not be given to any Committee member who submits a signed waiver of notice before or after the meeting, or who attends the meeting without protesting, prior thereto or at the commencement thereof, the lack of notice to such member.

D. *Quorum and Voting*

The quorum necessary for the transaction of business at Committee meetings will be a majority of the members of the Committee. All determinations of the Committee must be approved by at least the number of members required to constitute a quorum.

E. *Agenda, Minutes and Reports*

An agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting. Minutes of all meetings of the Committee shall be prepared to document the Committee's discharge of its responsibilities. The minutes shall be considered and approved by the Committee. The Committee shall make regular reports to the Board.

F. *Access to Records, Consultants and Others*

The Committee shall have full authority: (i) to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the MSRB; (ii) to retain, terminate and set the compensation of outside legal, accounting or other consultants to advise the Committee; and (iii) to require any officer or employee of the MSRB or request any of the MSRB's outside counsel, internal auditors, independent auditors or other consultant to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee Chair shall inform the Finance Committee and the Chief Financial Officer of the outside work being contemplated as well as the expected resource needs. If the project is unbudgeted and expected to exceed \$25,000, then the Finance Committee and the Chief Financial Officer should be notified prior to the Committee Chair obligating resources. The Committee is encouraged to rely on the MSRB internal legal counsel to ensure that the planned use of outside experts does not violate the Code of Ethics and Business Conduct, and for legal contract review and negotiation. The Committee Chair shall provide the Chief Financial Officer with the agreement for services for any outside consultants that are retained to advise the Committee; provided that if the Chief Financial Officer is the subject of such services, the Chief Executive Officer and the General Counsel shall be advised of the outside work being contemplated as well as the expected resource needs, and provided the agreement for services for the outside consultants.

**III. Responsibilities**

A. *Annual Independent Audit of the MSRB's Financial Statements*

i. *Engagement of Independent Auditors*

The Committee shall engage the independent auditors and oversee, evaluate and, where appropriate, replace the independent auditors. The Committee shall approve the fees paid to the independent auditors. The Committee may solicit competitive bids for independent audit services or evaluate alternative providers at any time; however, if the independent auditors serve for ten consecutive years, the Committee shall solicit competitive bids to ensure the Committee is presented with a periodic opportunity for firm rotation and to ensure the MSRB is receiving competitive pricing for services. The Committee may choose to include the

current independent auditors within the bidding process and may also elect to continue with the current independent auditors at the conclusion of the bidding process, if appropriate.

ii. *Independence and Performance of Independent Auditors*

The Committee shall receive periodic reports, at least annually, from the independent auditors regarding their independence, and shall discuss such reports with the auditors, if necessary, to satisfy itself of the independence of the auditors, in conformance with the Securities and Exchange Commission's (SEC) standards on auditor independence. The Committee shall review the performance of the MSRB's independent auditors annually. In doing so, the Committee shall consult with management and shall obtain and review a report by the independent auditors describing their internal control procedures, of issues raised by their most recent internal quality control review or peer review (if applicable), or from any inquiry or investigation by governmental or professional authorities for the preceding five years and the response of the independent auditors. The Committee shall consider whether it is appropriate to adopt a policy of rotating independent auditors on a periodic basis.

iii. *Audits by Independent Auditors*

The Committee shall discuss with the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of such audits. In connection with any such audit, the Committee shall discuss with management, the independent auditors and any internal auditors, the MSRB's major risk exposures (whether financial, operating or otherwise), the adequacy and effectiveness of the accounting and financial controls, and the steps management has taken to monitor and control such exposures and manage legal compliance programs, among other considerations that may be relevant to their respective audits. Management shall report periodically to the Committee regarding any significant deficiencies in the design or operation of the MSRB's internal controls, material weaknesses in internal controls and any fraud (regardless of materiality) involving persons having a significant role in the internal controls, as well as any significant changes in internal controls implemented by management during the most recent reporting period of the MSRB.

iv. *Pre-Approval of Non-Audit Services*

The Committee shall approve guidelines for the retention of the independent auditors for any non-audit service and the fee for such service and shall determine procedures for the approval of non-audit services in advance. The Committee shall, in accordance with such procedures, approve in advance any non-audit service provided to the MSRB by the independent auditors. The independent auditors may not be engaged to perform the internal audit function.

v. *Review of Annual Financial Statements*

The Committee shall review with management and the independent auditors the annual financial statements of the MSRB, including their judgment about the reasonableness of significant judgments, the clarity of the disclosures in the financial statements and the

adequacy of internal controls. The Committee shall also discuss the results of the annual audit of MSRB's financial statements and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards or applicable law. The Committee may discuss with the national office of the independent auditors issues on which it was consulted by the MSRB's audit team and matters of audit quality and consistency.

*vi. Review of Certain Matters with Independent Auditors*

The Committee shall review periodically with management and the independent auditors the effect of new or proposed regulatory and accounting initiatives on the MSRB's financial statements.

*vii. Consultation with Independent Auditors*

The Committee shall review with the independent auditors any problems or difficulties the auditors may have encountered in connection with the annual audit or otherwise and any management letter provided by the auditors and the MSRB's response to that letter. Such review shall address any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, any disagreements with management regarding generally accepted accounting principles and other matters, material adjustments to the financial statements recommended by the independent auditors and adjustments that were proposed but "passed", regardless of materiality.

*viii. Policies for Employment of Former Independent Auditor's Staff*

The Committee shall approve guidelines for the MSRB's hiring of former employees of the independent auditors, Exhibit J of the Board's Policies and Procedures.

**B. Risk Management**

The Committee shall engage in enterprise risk management as described in the Risk Management Policy, Exhibit F of the Board's Policies and Procedures. The Committee shall periodically discuss the strategic, financial, operational and compliance risks of the MSRB to identify major risk exposures and annually present key enterprise risks to the Board. In overseeing enterprise risks, the Committee shall receive periodic reports from management on the effectiveness of the MSRB's risk mitigation activities, including information technology and security practices.

**C. Internal Audit**

The Committee shall oversee any internal audit functions and review and concur in the appointment, reassignment, replacement or dismissal of the head of Internal Audit and approve any third-party provider retained to perform internal audit services ("third-party service provider"). The Committee shall ensure that the internal audit function has sufficient resources to execute an annual audit plan. The Committee shall have final authority to approve the annual audit plan and all major changes to the plan. The Committee shall review and approve the Internal Audit Charter, which specifies the authority, role, and

responsibilities of the Internal Audit function. The Committee shall ensure there are no unjustified restrictions or limitations related to completion of audit activities, including any restrictions on the scope of activities or access to required information. On an annual basis, the Committee shall meet separately with the head of Internal Audit to discuss any matters that the Committee or head of Internal Audit believes should be discussed privately. The Committee shall discuss with management and the head of Internal Audit or third-party service provider any significant findings identified through the internal audit function, including, but not limited to, management's responses to the findings of any internal auditor or third-party service provider. At least once each year, the Committee shall review the effectiveness of the internal audit function.

D. *Review of Legal and Regulatory Compliance*

The Committee shall periodically review with management, including the General Counsel, the independent auditors, and the head of Internal Audit any correspondence with, or other action by, regulators and any employee or other complaints or published reports that raise concerns regarding the MSRB's financial statements, accounting or auditing matters or compliance with the Code of Ethics and Business Conduct. The Committee shall also meet periodically with the General Counsel and other appropriate legal staff of the MSRB to review material legal affairs of the MSRB and the MSRB's compliance with applicable law. The Committee may meet separately with the General Counsel to discuss any matters that the Committee or General Counsel believes should be discussed privately.

E. *Establishment of "Whistleblower" Procedures*

The Committee shall establish procedures for the receipt, retention and treatment of complaints referred to the Committee under the MSRB's "whistleblower" policies and procedures regarding accounting, internal accounting controls, auditing, budgeting and cash management matters, and the confidential, anonymous submission by employees and consultants of the MSRB and members of the public of concerns regarding questionable accounting, auditing, budget, cash management matters or other matters as established in Exhibit D of the Board Policies and Procedures.

F. *Review of IRS Form 990*

The Committee shall review with management the MSRB's completed IRS Form 990 annually prior to the filing of such form with the Internal Revenue Service (IRS) and shall report any findings or conclusions to the Board in connection with the Board's annual review of such form.

G. *Review of Annual Regulation Systems Compliance and Integrity ("SCI") Review*

The Committee shall review with management and the head of Internal Audit the MSRB's completed SCI Review annually prior to the filing of such review with the SEC and shall report its review to the Board.

H. *Other Delegated Responsibilities*

The Committee shall also carry out such other duties as may be delegated to it by the Board from time to time.

I. *Committee Performance Evaluation*

The Committee shall annually review its own performance.