



Municipal Securities Rulemaking Board

# Executive Budget Summary

For the Fiscal Year Beginning October 1, 2017

Lucy Hooper, Chair of the Board of Directors  
Lynnette Kelly, Executive Director  
Nanette Lawson, Chief Financial Officer



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### ABOUT THE MSRB

The MSRB protects investors, state and local governments and other municipal entities, and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its [Electronic Municipal Market Access \(EMMA®\) website](#), the official repository for information on all municipal bonds. The MSRB also serves as an objective resource on the municipal market, conducts extensive education and outreach to market stakeholders, and provides market leadership on key issues. The MSRB is a Congressionally-chartered, self-regulatory organization governed by a 21-member board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is subject to oversight by the Securities and Exchange Commission.





Dear Municipal Market Stakeholders,

The MSRB follows best practices for corporate transparency by annually publishing audited financial statements each January. Doing so provides municipal market stakeholders with key information about our revenues and expenses for the prior year, and reflects our status as a not-for-profit, self-regulatory organization established by Congress to protect investors, state and local governments and other municipal entities by promoting a fair and efficient municipal market.

This year, we are giving you a window into the future by publishing a budget summary for our current fiscal year to further demonstrate our commitment to public accountability and to highlight the alignment between the MSRB's projected revenues, spending and strategic goals. As Chair of the MSRB's Board of Directors, I fully support this increased financial transparency, as does the Board.

Ensuring appropriate revenue and expense levels and overall financial sustainability of the MSRB is the responsibility of the Board and senior management. Our prudent financial management included a holistic review of our revenue sources in 2015 to assess whether fees on regulated entities were allocated as fairly and equitably as possible. Since then, we have made some adjustments and continue to diligently scrutinize fees while diversifying the sources of our revenue to include all entities under our regulatory mandate.

In publishing a budget summary, we also hope to communicate our approach to managing organizational reserves. Adequate reserves are essential for any organization and particularly one like the MSRB with a federal regulatory mandate that requires us to operate without interruption under any market conditions.

Most of our budgeted annual revenues — 80% in 2018 — are directly tied to municipal securities trading and underwriting volume. Because of this strong correlation between revenues and volatile market activity, current reserve levels reflect the annual difference between revenue assumptions and actual results that have accumulated over time. Reserves also reflect expense savings that are a result of strict financial management. For these reasons, reserves have grown above target levels.

Board policies address the management of reserves and over the last three years we have reduced them twice by providing a total of \$9.1 million in rebates to qualified registrants, as well as decreasing the rate of the underwriting fee — one of our largest sources of revenue — by 8.3% in 2016. We continue to closely monitor reserves, looking not only to our current position but also to the future and projected trends. This year's budget lays out a plan to responsibly manage down excess reserves in a manner that supports the fair and equitable balance of fees across regulated entities while above all, preserving the financial sustainability of the MSRB so that it can continue its statutory obligation to oversee the municipal securities market and protect investors, municipal entities and the public interest.

I welcome your feedback and comments.

Sincerely,

A handwritten signature in blue ink that reads "Lucy Hooper".

Lucy Hooper  
Chair, MSRB Board of Directors

## Fiscal Year 2018 Budget

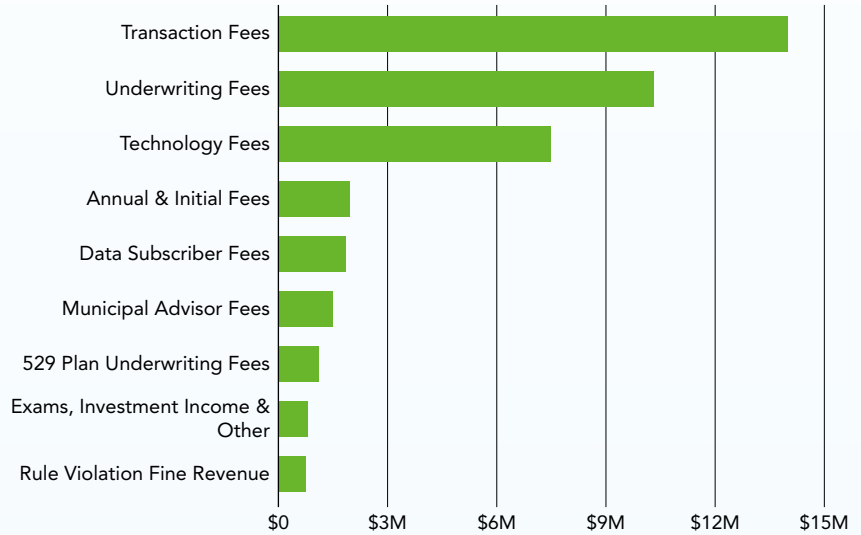
The MSRB’s 2018 budget reflects the organization’s financial priorities — a fair and equitable balance of fees, the diversification of revenues, revenue expectations that account for volatile market activity

and strict management of expenses. Each year the MSRB budgets in good faith and oversees expenses with the same integrity and rigor that the organization applies to pursuing its annual and strategic objectives.

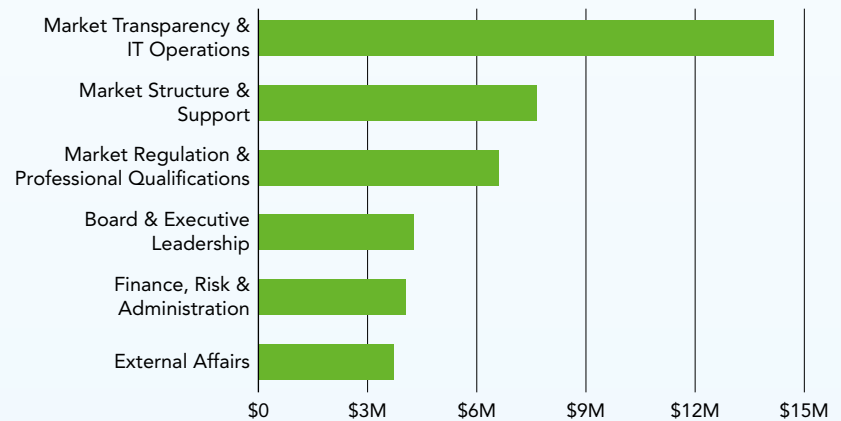
### FY 2018 ANNUAL BUDGET

Revenue	
Fee Revenue	
Underwriting Fees	\$10,312,500
Transaction Fees	14,000,000
Technology Fees	7,500,000
Municipal Advisor Fees	1,500,000
Annual Fees	1,950,000
Initial Fees	25,000
Professional Qualifications Exam Fees	330,000
529 Plan Underwriting Fees	1,100,000
MuniEdPro Fees	25,000
Data Subscriber Fees	1,864,000
<b>Total Fee Revenue</b>	<b>\$38,606,500</b>
Other Income	
Rule Violation Fine Revenue	750,000
Investment Income	468,000
<b>Total Revenue</b>	<b>\$39,824,500</b>
Expenses	
Market Transparency & IT Operations	\$14,167,467
Market Structure & Support	7,658,834
Market Regulation & Professional Qualifications	6,613,332
Board & Executive Leadership	4,279,121
Finance, Risk & Administration	4,048,240
External Affairs	3,718,167
<b>Total Expenses</b>	<b>\$40,485,161</b>
<b>Net Change in Assets (Deficit)</b>	<b>(\$660,661)</b>

### FY 2018 BUDGETED REVENUE: \$39,824,500



### FY 2018 BUDGETED EXPENSES: \$40,485,161\*



\*by activity

## Revenues

The 2018 budgeted revenue comes from a diverse array of sources, though 80% of the MSRB's revenue is correlated with municipal underwriting and trading activity and will rise or fall as the market moves. Brokers, dealers and municipal securities dealers pay the MSRB an underwriting fee for municipal securities purchased from an issuer as part of a primary offering. The same entities pay the MSRB a transaction fee for municipal securities sales and a per transaction technology fee.

In May 2018, as part of the organization's continuous effort to fairly allocate fees across regulated entities benefiting from operating in the municipal market, the MSRB is introducing a new revenue source. Underwriters to 529 college savings plans will pay an annual underwriting fee on total aggregate plan assets. The MSRB also is raising the amount of the annual professional fee on municipal advisors from \$300 to \$500, which will be due in April 2018. Over time reliance on the three largest revenue sources has decreased, and total revenue sources have become more diversified.

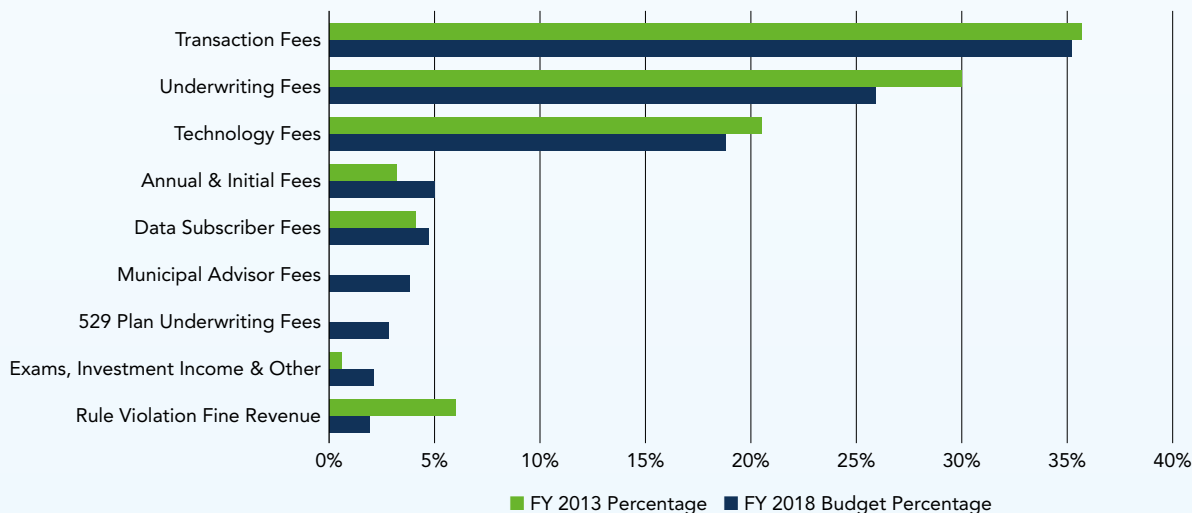
Because of intentional revenue diversification (see *graph*), MSRB revenue generated from transaction, underwriting and technology fees has declined as a percentage of the total budget from 86% in 2013 to 80% in 2018.

Dealer and municipal advisor firms that pay MSRB assessments vary in size and amount of contribution. The table below illustrates the range of total annual fee assessments paid by firms in 2016 (the most recently available audited results) by number of registrants and by percentage of fees paid. 91% of MSRB's annual assessments are paid by 10% of registrants while the remaining 9% of fees are paid by 90% of registrants. These numbers support the Board's focus on ensuring that all regulated entities that benefit from a well-functioning market made possible by the MSRB's oversight and substantial technology investments contribute fairly to those costs.

### DISTRIBUTION OF FEE ASSESSMENTS (FY 2016)

Total Annual Assessment Ranges	# of Registrants	% of Annual Assessments Paid
\$1,000,001+	7	43%
\$500,001 – \$1,000,000	7	19%
\$100,001 – \$500,000	28	20%
\$10,001 – \$100,000	90	8%
\$5,001 – \$10,000	71	1%
\$2,501 – \$5,000	149	2%
\$1,001 – \$2,500	911	4%
\$0 to \$1,000	840	3%
<b>Total</b>	<b>2,103</b>	<b>100%</b>

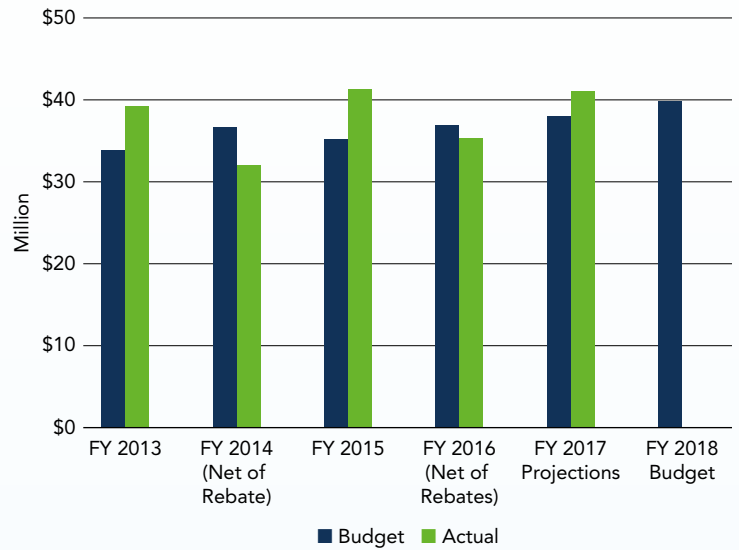
### REVENUE DIVERSIFICATION BY % CONTRIBUTION: FY 2013 VS. FY 2018 BUDGET



## Budgeting for Revenue

The MSRB strives to make reasonable predictions, such as for bond volume, which remains challenging given economic factors, the unpredictability of the direction of interest rates, the impact on refundings and new-money issuance, alternative sources of capital for issuers and other unknowns. The MSRB has historically been financially conservative when budgeting revenue, and actual market activity resulted in higher-than-expected revenues for several years. Recognizing its past conservative approach to budgeting revenue, the 2018 budget includes less conservative estimates for trading revenue as the MSRB seeks to narrow the gap between budget and actual results. Nevertheless, the market is inherently volatile and the MSRB will do its best to manage the actual results.

### HISTORICAL REVENUE VARIANCES: BUDGET VS. ACTUAL



## Expenses

The MSRB’s mission requires investment in technology and people to develop rules and market transparency and surveillance systems that ensure market integrity. The 2018 budget aligns with these statutorily mandated activities and with strategic goals established by the Board of Directors in April 2017, designed to support the MSRB’s mission to protect investors, state and local government issuers, other municipal entities and the public interest.

### Expenses by Activity

The organization’s largest expense is technology and technology professionals associated with the MSRB’s six market transparency systems, including the Electronic Municipal Market Access (EMMA®) website. These systems, such as the Real-Time Transaction Reporting System (RTRS), collectively receive, process and disseminate market-critical data and documents relied on by the municipal securities market 24 hours a day, seven days a week.

### AT-A-GLANCE: MARKET TRANSPARENCY SYSTEMS

System	Volume
EMMA	Average 2,287,250 page views per month
Real-Time Transaction Reporting System (RTRS)	Approximately 38,000 trade reports per day
Short-Term Obligation Rate Transparency (SHORT)	Approximately 36,800 data and documents per month
Primary Market	Average 1,020 documents per month
Continuing Disclosure	Average 12,300 documents per month
Political Contributions	Average 790 filings per quarter
Regulator Web	Average 445 visitors per month

[Read more about MSRB market transparency systems.](#)

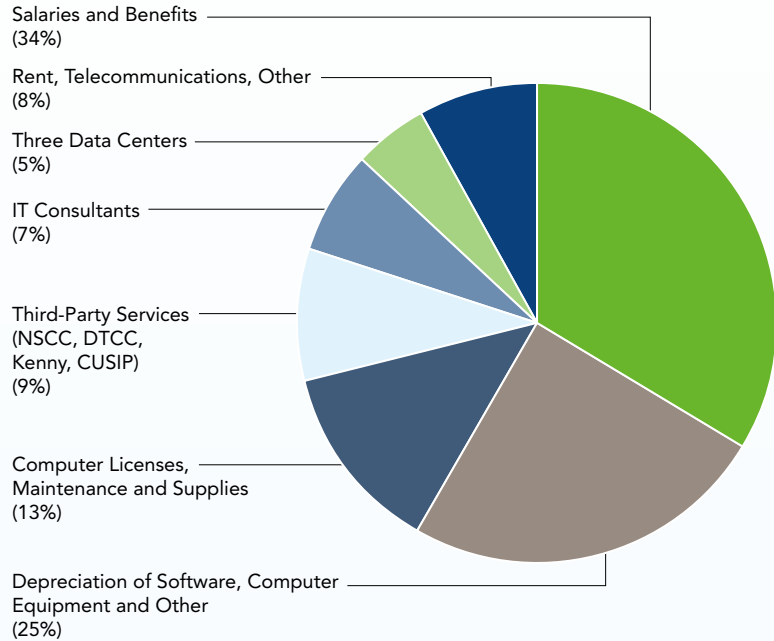
Regulators charged with enforcing MSRB rules and other federal agencies such as the Internal Revenue Service and the U.S. Department of Treasury also depend on the MSRB’s ability to provide seamless access to real-time trade data and disclosure documents to support their work and analysis.

**Market Transparency and IT Operations**

The 2018 budget for market transparency and information technology operations, which have 43 staff members, includes a strategic investment in the EMMA website to continue its evolution into a comprehensive transparency platform that meets the needs of municipal market participants and the public. The 2018 operating plan calls for improving the EMMA user experience and expanding access to data, documents and tools that support fair transactions, facilitate decision-making and promote an efficient municipal securities market. The MSRB also will complete a total overhaul of its Real-Time Transaction Reporting System — a critical capital investment — to modernize the technological backbone that serves as the sole source of municipal market trading data for investors, enforcement agencies, information vendors and others. Market Transparency and IT Operations annual budget spend of \$14.2 million is allocated among expense categories shown in the graph (right).

The MSRB’s information technology platform and systems play a critical role in the organization’s ability to support a transparent municipal market, and its investment in IT must be allocated among three chief needs. The MSRB needs to continually maintain its IT infrastructure, with software and server upgrades for example. The MSRB also must introduce new capabilities or improve existing ones that are tied directly to its strategic objectives. Finally, the MSRB needs to invest in projects that address changes in the market or protect MSRB data from emerging threats. This year, the MSRB wants to make an extra investment in its strategic objective with respect to EMMA — to further evolve the website into a comprehensive transparency platform that meets the needs of municipal market participants and the public. This work will incorporate user feedback received in a year-long focus group initiative. The 2018 budget therefore includes a \$3.5 million extra investment to accelerate technology initiatives, funded with reserves, to address this goal.

**FY 2018 MARKET TRANSPARENCY & IT OPERATIONS BUDGET ALLOCATION**



**Market Structure**

The MSRB’s market structure and support area, with 36 staff members, is another key component of the annual budget. This group manages initiatives related to market structure and market transparency, and conducts economic analysis and research related to regulatory and market leadership projects. Economic analysis informs the regulatory approach to addressing a market problem or other identified needs for rulemaking to evaluate the cost of the regulation against the benefit to the market. The market structure area also is the primary interface with market participants that regularly provide input on MSRB initiatives or that require support in using market transparency systems. For example, the group oversees strategic development of the EMMA website and manages data collected by the MSRB’s market transparency systems. Optimizing this data to further support market transparency and inform regulation is part of the MSRB’s strategic plan. Therefore, this year’s budget includes investment in a comprehensive analysis of relevant market data to maximize its availability, utility and quality for the benefit of all market stakeholders and the public.

### Market Regulation

Expenses for market regulation and professional qualifications encompass the third-largest segment of the budget. Twenty-two staff members maintain the MSRB’s regulatory program for municipal securities dealers and municipal advisors, including their professional qualifications, and provide regulatory support to entities that enforce MSRB rules, part of the organization’s core mission. The MSRB’s 46 rules of conduct and qualification must be responsive to changes in the municipal securities market and technology, among other factors. MSRB rules also must be consistent, where appropriate, with rules of other financial market regulators to provide for more efficient compliance. To address these imperatives, the MSRB engages in retrospective rule review, and proposes amendments as appropriate. Effective regulation of the municipal securities market is achieved through appropriately tailored rules accompanied by robust compliance resources, such as best practice guidance and ongoing education. In 2018, the MSRB is putting a special focus on facilitating industry understanding of and compliance with MSRB rules.

### Executive Office and Board

The MSRB is overseen by an Executive Leadership team of five staff members that also support the 21-member Board, which exercises oversight of the operation and administration of the organization. The Board consists of a majority of public members as well as members representing regulated entities, including municipal advisors, broker-dealers and banks.

### Financial and Risk Management

One other area of the expense budget that provides important foundational support for the organization is risk management and the oversight of financial and human capital. Seventeen staff members support these efforts. A structured risk management program seeks to mitigate and manage risks through extensive internal controls while strict financial management ensures accountability and responsible stewardship of all MSRB assets. Expenses associated with these costs, as with all our costs, are tightly managed for maximum impact.

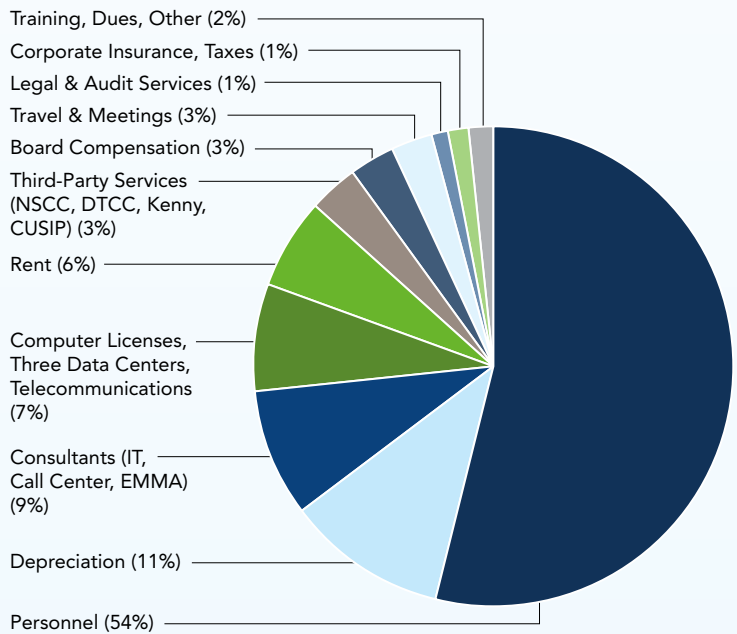
### External Affairs

The MSRB’s outreach, education and other external affairs activities, with 11 staff members, play an essential role in supporting the mission. The rulemaking process relies heavily on both formal and informal public comment and industry input. The MSRB engages in extensive outreach to obtain market feedback and educate market stakeholders, federal policymakers and others about the unique features of the municipal securities market and conduct intensive training for regulators that enforce MSRB rules.

### Controlling Expenses

Personnel is the largest single component of the organization’s expense budget, and the MSRB has controlled this expense by keeping headcount flat with the prior year at 134 positions. A Board compensation strategy policy guides the organization in recruiting and retaining employees, and sets forth the MSRB’s pay-for-performance and comprehensive total rewards approach to compensation.

**FY 2018 BUDGETED EXPENSES: \$40,485,161\***



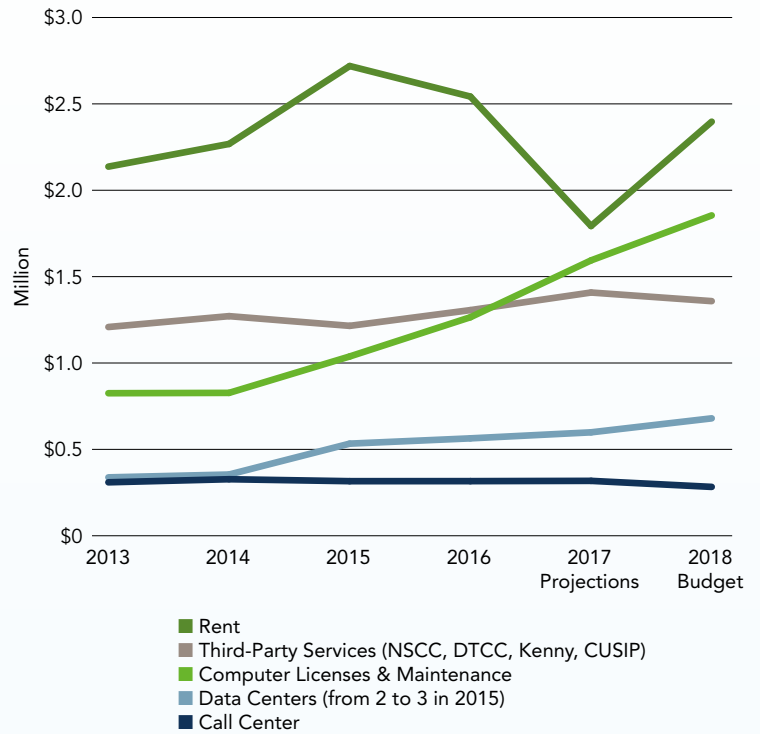
\*by category



The MSRB has worked vigorously to control other expenses against the backdrop of expanded responsibilities under the Dodd-Frank Consumer Reform and Protection Act as well as the requirements of Securities and Exchange Commission’s Regulation System Compliance and Integrity rule. The graph shows key expense trends over time. Technology costs continue to rise as the organization strives to enhance transparency, maintain systems integrity and security, and cultivate and leverage data — a key strategic goal. In terms of rent, expenses dropped with the move from Alexandria, Virginia to Washington, DC in December 2015 because of lease incentives, then returned to more typical spend.

The organization’s expense budget reflects strict management that supports the financial sustainability of the MSRB while diligently controlling operational costs.

**KEY HISTORICAL EXPENSE TRENDS**



**Reserves**

Projected positive results for FY 2017 continue the MSRB’s surplus reserve position as it starts 2018. The Board establishes reserve levels and a Board funding policy provides guidance and continuity in funding decisions and helps align strategic, operational and financial planning, as well as manage reserve levels. This year, the MSRB will operate under a deficit budget that reflects a modest expense increase over the prior year. However, the MSRB is not taking further action at this time to reduce our organizational reserves given

the dependency of revenues on market activity, the fact that the MSRB is taking a less conservative approach to budgeting revenue (applying lessons learned from past years’ budget versus actual revenues), and out-year projections that align with reserve targets in the next two years. The MSRB is applying a more prudent “wait-and-see” strategy to address surplus reserves and minimize the risk of needing to raise fees quickly based on unexpected changes in market activity.



Nanette Lawson, MSRB CFO

## FINANCIAL RESERVES: PROTECTION AGAINST MARKET FLUCTUATIONS

*Message from the Chief Financial Officer*

In 2010, after several years of heavy investment in the technological infrastructure needed to launch our EMMA website, the MSRB's financial reserve levels had dropped below the target established by our Board of Directors. As a self-regulatory organization that supports transparency programs relied upon by municipal market participants, the MSRB must maintain sufficient reserves to operate without interruption. Reserves are necessary to mitigate fluctuations in our market-driven revenue stream and are a backstop for funding technology essential to the efficient operation of the municipal market. In 2010 reserve levels dropped to a low of nine months, below the target of 12 months of operating expenses plus three times annual capital needs. Replenishing our reserves became a priority in 2010.

To fund this critical reserve shortfall, in 2011 we began assessing a technology fee on the number of municipal securities traded and also raised the fee assessed on the par value of municipal securities transactions, which had not been changed since 2000. New revenues generated by the technology fee were particularly important in providing resources to support a robust and reliable technological infrastructure for EMMA and the MSRB's market transparency programs, and build the IT capital reserves to support a sustainable platform. The investment allowed us to ensure the operational integrity of our information systems and keep pace with changing technology and system needs. Reserves also grew due to fine revenue, a new revenue source in late 2010, which we did not include in our budget until last year given that we had no track record of determining a reasonable annual amount. A Board fine-sharing policy guards against potential conflicts of interest in connection with the receipt of fine revenue and regulatory and other activities of the MSRB.

By 2014, revenue from the technology fee had generated sufficient resources to stabilize our technology reserve (three times annual depreciation on technology capital expenditures). Our financial position also allowed us to rebate \$3.6 million in technology fees to eligible registrants. The Board's rebate decision and analysis of reserve levels prompted it to conduct a holistic review in 2015 of fees from dealer assessments, municipal advisors and other sources to determine whether further changes to the funding structure were warranted.

The first outcome of the holistic review was to substantially reduce (by 8.3%) the fee assessed on municipal securities underwriters. At the same time, we raised initial registration fees (which had not been adjusted since 1975), and annual fees (which had not been adjusted since 2009) — fees that are paid by all regulated entities. Municipal advisors became newly regulated post Dodd-Frank, and in 2014 began contributing to the cost of regulation.

Our reserves grew due to strong revenue results compared to budget, as well as expense savings, and bolstered our reserve levels to the point where another rebate was warranted in 2016. That year, the MSRB rebated \$5.5 million of excess reserves

*more >>*

to dealers who were assessed underwriting, transaction and technology fees during the first nine months of the fiscal year. It is important to note that, while we had excess reserves to rebate to eligible dealers, we continued our work to ensure that all regulated entities paid their fair share. With that objective in mind, our 2018 budget includes a new revenue source from underwriters to 529 plans, as well as an increase in the municipal advisor professional fee.

We continue to address reserve levels with the goal of aligning them with the established target within two years. Given historical market volatility that contributed to our excess reserve levels, the Board believes making strategic investments using a modest portion of reserves combined with expected modest growth in expenses is an appropriately conservative and sustainable approach to gradually reduce reserve levels. This gradual approach to aligning with the target also should minimize the need to make any unexpected or immediate changes in the MSRB’s fee structure and provide regulated entities with certainty about their MSRB assessments. Investing reserves in initiatives that support the fairness and efficiency of the municipal market will benefit all regulated entities and the broader market.

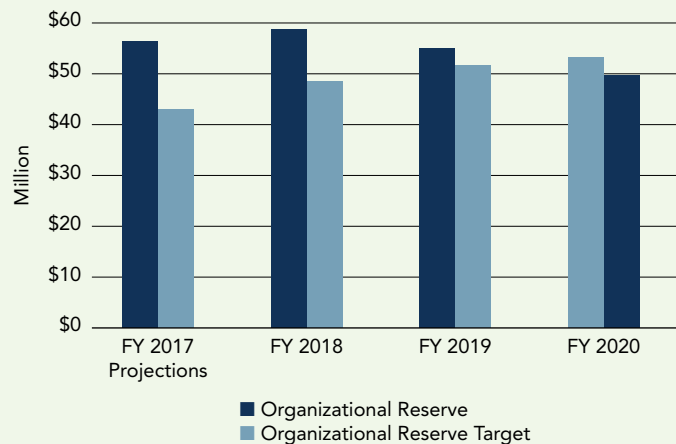
The Board approved a deficit budget for 2018 that reflects a modest expense increase over the prior year, including the strategic spend of reserves to accelerate technology initiatives and support our strategic objectives. As we look beyond 2018, projected deficit budgets grow and eliminate excess reserves and we project that reserves will drop below target in FY 2020. Because of our 80% market-based revenue stream, we may or may not actually realize those deficits.

Know that we are dedicated to managing assessments responsibly and are mindful of not prematurely distributing excess reserves and then needing to increase fees soon thereafter to maintain the financial strength of the organization.

A Board investment policy provides guidelines for the investment of reserve funds that emphasizes preservation of capital and liquidity while realizing adequate returns. The policy allows investment in government-guaranteed securities with a duration of three years or less, which resulted in investment income of \$541,000 in FY 2016, our most recent audited financial results.

**\$9.1 million**  
returned to dealers  
in fee rebates  
since 2014

**ORGANIZATIONAL RESERVE VS. TARGET**





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