



Municipal Securities Rulemaking Board

Executive Budget Summary

For the Fiscal Year Beginning October 1, 2018

Gary Hall, Chair of the Board of Directors

Lynnette Kelly, President and Chief Executive Officer



Contents

- 4 Fiscal Year 2019 Budget
- 6 Revenues
- 8 Expenses
- 13 Reserves
- 14 Financial Transparency

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,

As I begin my chairmanship of the Municipal Securities Rulemaking Board, I am pleased to present the executive budget summary for the fiscal year that begins October 1, 2018. This document supports our continued commitment to public accountability and responsible financial management.

The nation's \$3.8 trillion municipal securities market operates for the benefit of millions of investors and tens of thousands of state and local governments and other municipal entities. It is the role of the MSRB to regulate financial intermediaries and provide essential market transparency services to protect market participants and ensure a fair, open and efficient municipal securities market.

As a Congressionally mandated self-regulatory organization with a public purpose, the main programs funded by our budget are making rules and providing guidance, maintaining the key information repository to disseminate trade reports and bond disclosures, coordinating with examining and enforcement authorities, and facilitating market protections and regulatory compliance through education and the provision of compliance tools. To do all this, the MSRB must maintain its financial health and sustainability to operate without interruption under all market conditions.

As a fourth-year member of the MSRB Board of Directors and former chair of its Finance Committee, I am deeply steeped in the organization's finances and the rigor with which they are managed. I also fully understand the concerns of regulated entities about the level of our financial reserves and can assure you that the Board and management are taking proactive steps to responsibly reduce current reserves while ensuring the annual budget is adequate to meet our regulatory responsibilities.

Given the transition the industry is experiencing following the recent federal tax reform, the Board kept the MSRB's FY 2019 expense budget flat with last year. On the revenue side, we expect a reduction in underwriting revenue this year

compared to last year due to lower budgeted bond volume. Because of this budgeted revenue reduction as well as an expected decrease in fine revenue, the FY 2019 budget reflects an operating deficit of \$1.7 million, which will be funded with reserves.

The Board approved a temporary reduction in the assessment rates of underwriting, transaction and technology fees associated with market activity during the first three months of the MSRB's fiscal year. This temporary fee relief is estimated to increase the operating deficit by an additional \$2.6 million and thus further reduce reserves, advancing our goal of fair and equitable fees across regulated entities. Taken together, the reserve-funded operating deficit and the temporary fee reduction will result in the total FY 2019 budget deficit of \$4.3 million.

The third important step in our management of reserves is to make a strategic investment of \$5 million, taken from reserves, to position the MSRB's information technology infrastructure for the future. The investment will fund exploration and potential transition to cloud computing, if after analysis we determine such a transition would serve the MSRB's long-term interests to support and operate resilient and secure information technology infrastructure and data systems. If we determine that transitioning to cloud computing does not meet our long-term needs, the unspent designated funds will be returned to organizational reserves.

We believe that each of these carefully calibrated steps is responsive to industry concerns while preserving the organization's financial stability. We are committed to ensuring a fair and equitable assessment of fees as we carry out our statutory mission.

Prudent and appropriate financial management of the MSRB cannot be achieved without continued dialogue with all stakeholders and we welcome ongoing feedback and comments from regulated entities, investors, issuers, obligated persons and the public.

Sincerely yours,


Gary Hall

Fiscal Year 2019 Budget

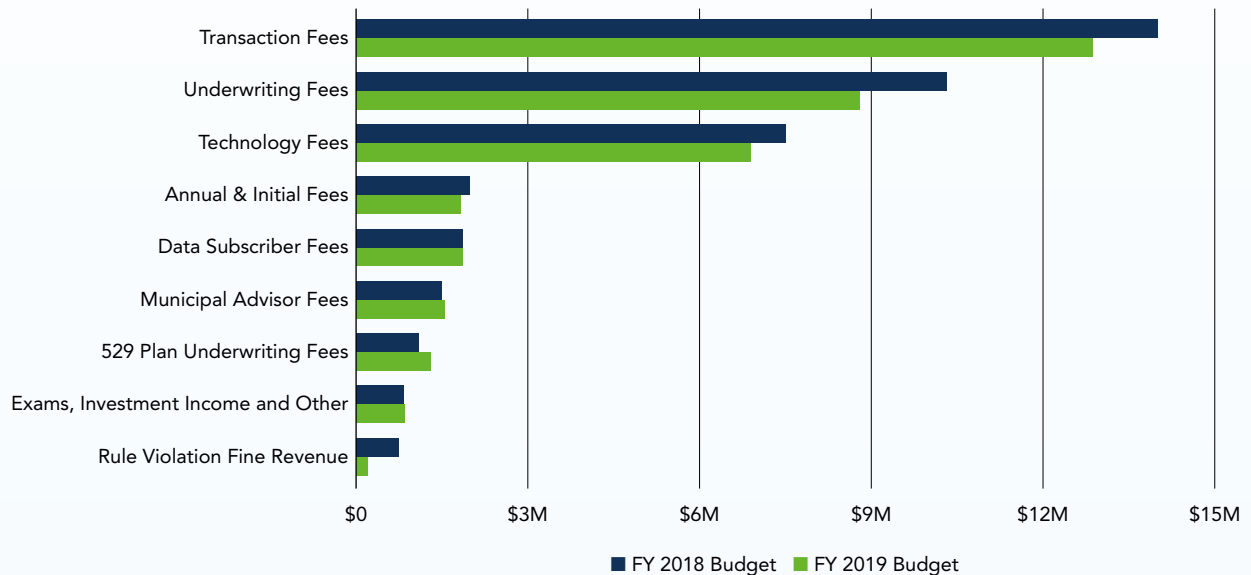
The MSRB's annual budget funds all statutory responsibilities of the organization and allocates related expenses. The annual budget is constructed in lockstep with the organization's strategic and annual operating plan objectives. The budget is designed to fund priorities as identified and overseen by the Board of Directors to effectively regulate the municipal securities market. This year, the budget projects an operating deficit of \$1.7 million and includes a \$2.6 million

Revenue	FY 2018 Budget	FY 2019 Budget
Fee Revenue		
Underwriting Fees (FY 2019 net of \$829,000 fee decrease)	\$10,312,500	\$8,796,000
Transaction Fees (FY 2019 net of \$1,141,000 fee decrease)	14,000,000	12,859,000
Technology Fees (FY 2019 net of \$614,000 fee decrease)	7,500,000	6,886,000
Municipal Advisor Fees	1,500,000	1,550,000
Annual Fees	1,950,000	1,800,000
Initial Fees	25,000	30,000
Professional Qualifications Exam Fees	330,000	330,000
529 Plan Underwriting Fees	1,100,000	1,300,000
MuniEdPro® Fees	25,000	50,000
Data Subscriber Fees	1,864,000	1,864,000
Total Fee Revenue	\$38,606,500	\$35,465,000
Other Income		
Rule Violation Fine Revenue	750,000	200,000
Investment Income	468,000	468,000
Total Revenue	\$39,824,500	\$36,133,000
Expenses		
Market Transparency and IT Operations*	\$15,825,125	\$16,604,310
Market Regulation and Professional Qualifications	6,613,332	6,462,634
Market Structure and Operational Support*	6,001,176	4,957,123
Board and Executive Leadership	4,279,121	4,331,764
Finance, Risk and Administration	4,048,240	4,084,087
External Affairs	3,718,167	4,034,523
Total Expenses	\$40,485,161	\$40,474,441
Net Change in Assets (Operating Deficit)	(\$660,661)	(\$4,341,441)

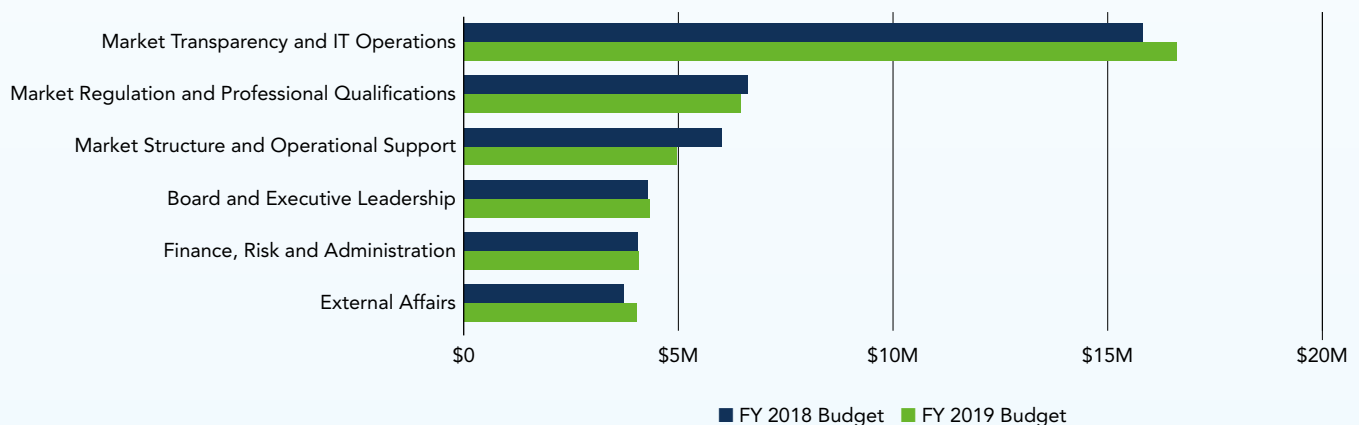
* Reclassified prior year to conform with FY 2019 presentation reflecting current organizational structure.

temporary reduction in three key fees assessed on regulated entities to further support a fair and balanced fee structure — resulting in a total budget deficit of \$4.3 million. The budget also includes a \$5 million designation of organizational reserves to fund exploration and potential transition to cloud computing if it is determined such a transition would serve the MSRB's long-term interests to support and operate resilient and secure information technology (IT) infrastructure and data systems.

BUDGETED REVENUE: FY 2018 BUDGET VS. FY 2019 BUDGET



BUDGETED EXPENSES: FY 2018 BUDGET VS. FY 2019 BUDGET*



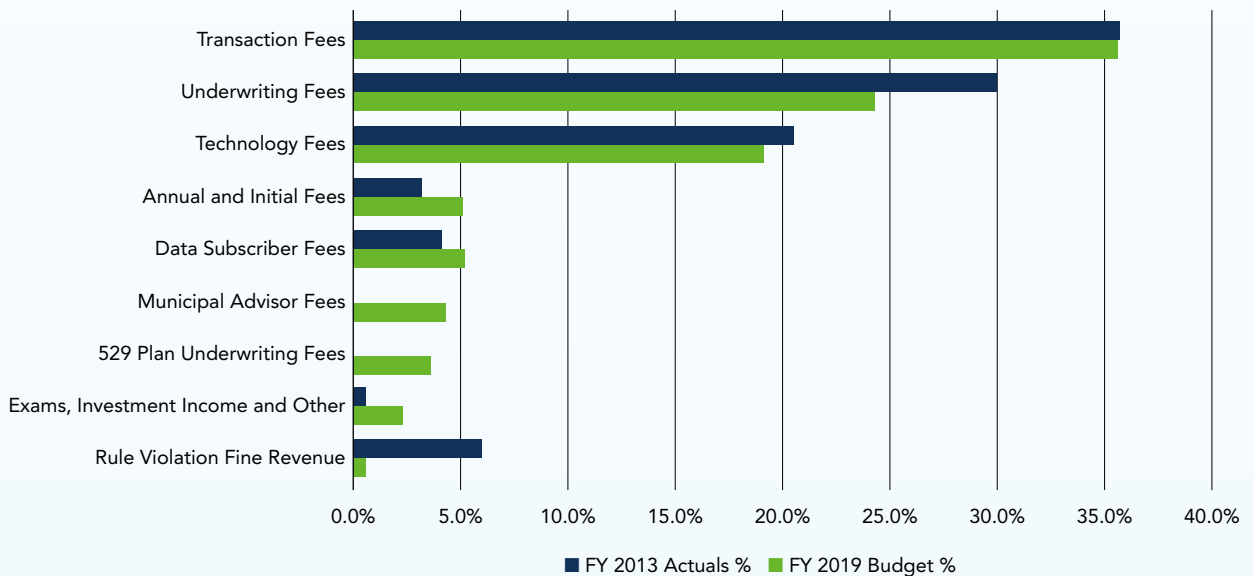
* Expenses presented by activity.

Revenues

FY 2019 revenues are budgeted at \$36.1 million, a reduction of \$3.7 million from the prior year, primarily due to the \$2.6 million fee reduction as well as a budgeted decrease in bond volume and fine revenue. By design, the MSRB's budgeted revenue sources have expanded over the past seven years, yet most of the organization's revenue — 79% in FY 2019 — remains drawn from municipal underwriting and trading activity, which rises or falls based on market activity. 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. These same entities pay the MSRB a transaction fee for municipal securities sales and a per-transaction technology fee. The MSRB also collects other fees that fund operations (*see Fee Rates table on page 7*).

In FY 2018, based on the MSRB's continuing efforts to ensure all regulated entities pay their fair share of fees and fund their cost of being regulated, a 529 plan underwriting fee was introduced. Underwriters to 529 college savings plans now pay an annual underwriting fee on total aggregate plan assets. This fee is expected to generate \$1.3 million in FY 2019. Also last year, the annual per-professional fee assessed on municipal advisors was increased to \$500 from \$300 and is budgeted to generate almost \$1.6 million in FY 2019. Though incremental steps, these changes continued the MSRB's diversification of revenue and have helped to reduce the percentage of total revenue generated from underwriting, transaction and technology fees to 79% in FY 2019 from 86% in FY 2013. The MSRB is committed to continuing to diversify its revenue sources.

REVENUE DIVERSIFICATION BY % CONTRIBUTION: FY 2013 ACTUALS VS. FY 2019 BUDGET



FEE RATES (FY 2019)

Type of Fee	Rate	Rate During Temporary Decrease (based on activity during first three months of FY 2019)
Underwriting Fee	\$0.0275 per \$1,000 par	\$0.0185 per \$1,000 par
Transaction Fee	\$0.01 per \$1,000 par	\$0.0067 per \$1,000 par
Technology Fee	\$1.00 per trade	\$0.67 per trade
Municipal Advisor Fee	\$500 per professional	
Annual Fee	\$1,000 per firm	
Initial Fee	\$1,000 per firm	
Professional Qualification Exam Fee	\$150 per exam	
529 Plan Underwriting Fee	\$0.005 per \$1,000 in plan assets	

Industry Assessments

Assessments paid by dealer and municipal advisor firms vary greatly in their proportionate financial contribution to total annual assessments. The table below illustrates the range of total financial fee assessments paid by firms in FY 2017 (the most recently available audited results) by percentage of fees paid and by number of registrants. Seven percent of registrant firms pay 92% of MSRB's annual assessments, while the remaining 93% of firms pay 8%. These percentages underscore why the MSRB is so strongly committed to ensuring that all regulated entities that benefit from a well-functioning market made possible by the MSRB's oversight and substantial technology investments contribute fairly to those costs.

DISTRIBUTION OF FEE ASSESSMENTS*

Total Annual Assessment Ranges	% of Annual Assessments Paid	# of FY 2017 Registrant Firms in Tier
\$1,000,001+	55%	11
\$500,001–\$1,000,000	15%	7
\$100,001–\$500,000	13%	23
\$10,001–\$100,000	9%	102
\$5,001–\$10,000	1%	75
\$2,501–\$5,000	1%	146
\$1,001–\$2,500	4%	913
\$0 to \$1,000	2%	694
Total	100%	1,971

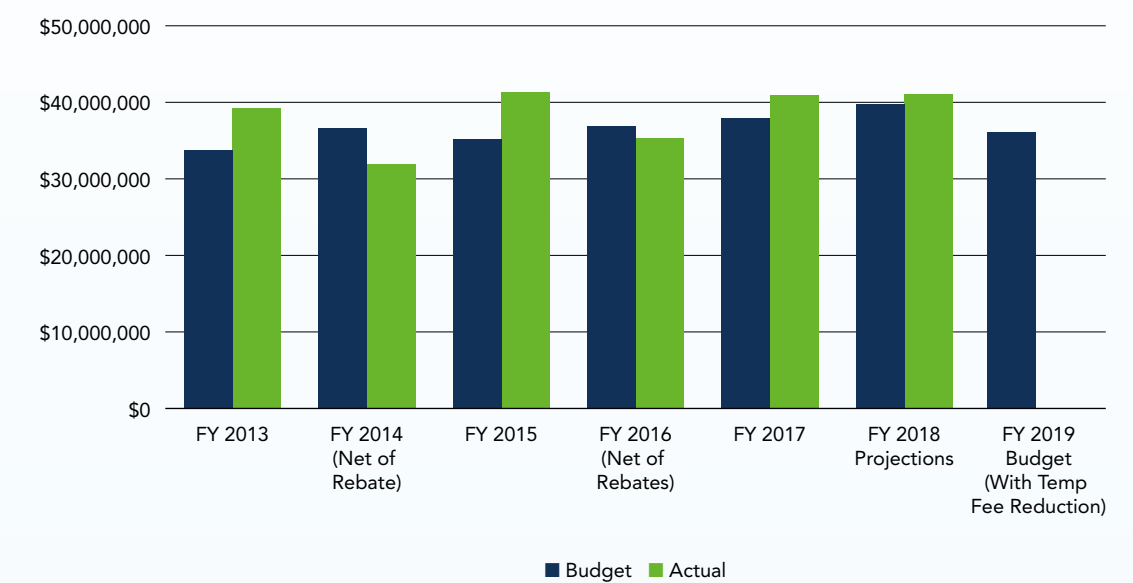
* The most recently available audited results (FY 2017).

Budgeting for Revenue

Based on annual input from Board members and market data, the MSRB strives to make reasonable predictions when budgeting for revenue. Accurately predicting bond volume for budgeting purposes remains challenging given economic factors, alternative sources of capital for issuers and other unknowns. The MSRB has historically been conservative when budgeting revenue, and for several years, actual market activity resulted in higher-than-expected revenues. Recognizing the previous, perhaps overly conservative approach to budgeting revenue, the

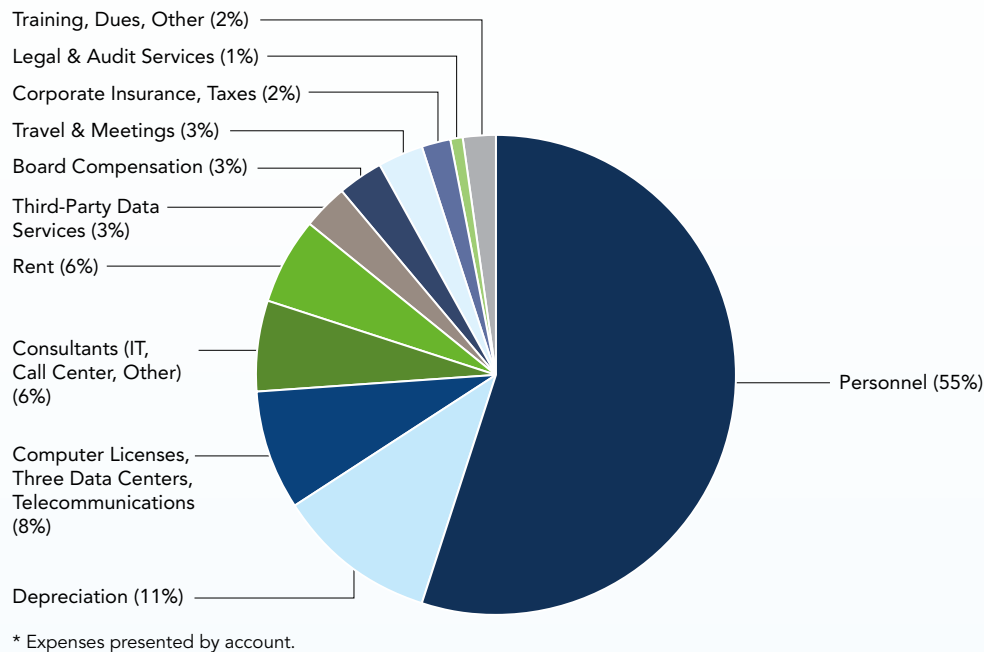
FY 2019 budget includes expected trading volume at the high-end of historical levels — which is where FY 2018 actuals have been trending — as the MSRB seeks to narrow the gap between budget and actual results. However, given that the long-term impact of 2018 federal tax reform is still unknown, FY 2019 budgeted bond volume is set at \$350 billion, a \$25 billion reduction from the prior year. Uncertainty regarding bond volume is higher than normal in this post-tax reform environment. The MSRB’s FY 2019 revenue budget is less conservative than prior years and should not materially grow organizational reserves, if at all.

HISTORICAL REVENUES: BUDGET VS. ACTUAL



Expenses

FY 2019 expenses are budgeted at \$40.5 million, flat compared with the prior year. The MSRB’s mission requires investment in people and technology to develop rules and market transparency systems that ensure market integrity. The MSRB’s FY 2019 budget aligns with these statutorily mandated activities and with strategic goals established by the Board in FY 2017 as part of its strategic planning cycle.

FY 2019 BUDGETED EXPENSES: \$40,474,441***Expenses by Activity**

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

AT-A-GLANCE: MSRB MARKET TRANSPARENCY SYSTEMS

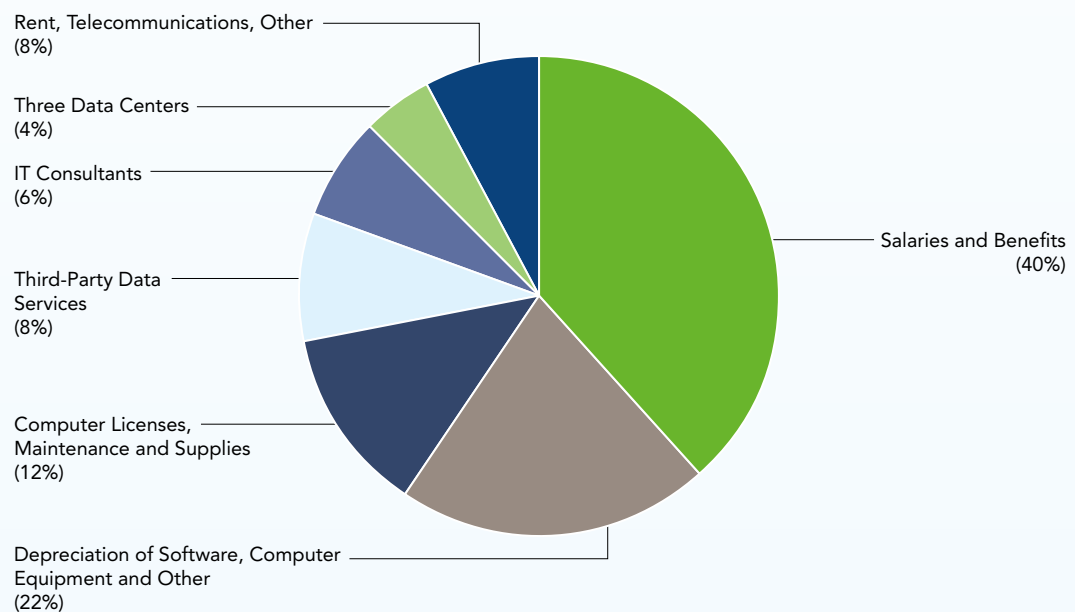
System	Average Approximate Volume
EMMA	2,918,000 page views per month
Real-Time Transaction Reporting System (RTRS)	38,600 trade reports per day
Short-Term Obligation Rate Transparency (SHORT)	33,300 data and documents per month
Primary Market	1,040 documents per month
Continuing Disclosure	12,400 documents per month
Political Contributions	600 filings per quarter
Regulator Web	190 visitors per month

Regulators charged with enforcing MSRB rules — the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Federal Reserve System and the Office of the Comptroller of the Currency — and other federal agencies, such as the Internal Revenue Service, the U.S. Department of Treasury and the Federal Deposit Insurance Corporation (FDIC), 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

In FY 2019, the MSRB's 54 market transparency and IT staff are focused on projects addressing the effectiveness and resiliency of the MSRB's transparency systems, which play a critical role in the organization's ability to support a transparent municipal market. This year, an exploration of cloud computing and "big data" will help position the MSRB's technology infrastructure for the future and potentially facilitate additional analytical market research and market monitoring. Developing a cloud-migration business case and architecting a cloud-based prototype analytics platform over the next year will help the MSRB determine whether it can gain additional market insight from the vast amounts of unstructured market data it collects. Other important market transparency and IT projects this year include converting political contribution information submitted by dealers and municipal advisors from a document format to a structured-data format, and improving the disclosure submission process on the EMMA website for municipal securities issuers. The submission improvements are responsive to stakeholder feedback gathered through focus groups and other engagement. Goals of this project include improving the quality of indexing data for disclosure documents, integrating relevant tools and resources for issuers throughout the submission process and improving submission interface.

FY 2019 MARKET TRANSPARENCY AND IT OPERATIONS BUDGET ALLOCATION



Market Regulation and Professional Qualifications

Expenses for the MSRB's market regulation and professional qualifications staff represent the second-largest segment of the budget. Nineteen staff are responsible for ensuring that MSRB rules and professional qualifications exams are up-to-date, effective and reflective of current market practices. In FY 2019, market regulation staff are engaged in a retrospective rule review that includes analyzing MSRB rules for their clarity and outcomes, as well as implications of technology and market changes. Regulatory staff include key professionals charged with developing and maintaining the MSRB's professional qualification program for municipal securities dealers and municipal advisors, including, this year, the development of a principal-level qualification examination for municipal advisors. Staff attorneys also create compliance aids

and provide assistance to other securities regulators that examine for and enforce MSRB rules. This year, MSRB enforcement support professionals will increase assistance to other regulators with the goal of consistent interpretation of rules and alignment of enforcement activities that promote regulatory certainty. Market regulation staff also act as a resource for all Board and regulatory advisory groups as they evaluate possible rule changes and improvements.

Market Structure and Operational Support

The MSRB's market structure and operational support area, with 24 staff members, is a key component of the annual budget. This group conducts initiatives related to market structure and market transparency, including economic analysis and research related to regulatory and transparency projects such as producing data-driven reports on the impact of mark-up disclosure and market considerations for pre-trade price transparency. Economic analysis informs the regulatory approach to addressing an identified need for rulemaking and evaluates the cost of the regulation against the benefit to the market. The market structure group oversees strategic development of the EMMA website and analyzes data collected by the MSRB market transparency systems. Operational support staff are the primary interface with market participants that require assistance in using market transparency systems and handle an average of 1,740 inquiries per month. Optimizing market 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.

Board and Executive Leadership

The MSRB is overseen by a Board of Directors, which exercises oversight of the operation and administration of the organization. The MSRB is managed by an Executive Leadership team of five staff members who also support the 21-member Board. The Board consists of a majority of public members as well as members representing regulated entities, including municipal advisors, broker-dealers and banks. The Board meets in person four times a year, makes policy decisions and authorizes rulemaking and market transparency initiatives. Board committees — Audit and Risk, Finance, Nominating and Governance, and Technology — perform work at the direction of the Board, and the Steering Committee assists in the administration of Board responsibilities and implementation of Board policy decisions.

Finance, Risk and Administration

Day-to-day financial, risk, facilities and human capital management are essential internal functions conducted by 17 professional staff who ensure appropriate spending and staffing as well as rigorous application of internal operational controls. Financial management staff this year are engaged in an ongoing evaluation of the MSRB data subscription pricing model, reserves analysis and continued focus on revenue diversification.

Board Creates Technology Committee

In FY 2019, the MSRB Board of Directors created a Technology Committee to assist it in fulfilling its oversight responsibility relating to the MSRB's technology strategy, significant technology initiatives, and operations and technology risks. The committee will guide MSRB staff in the development, evolution and advancement of the MSRB's long-term technology strategy established in July 2018. The committee also is responsible for monitoring and evaluating developments, as well as existing and future trends, in technology that may affect the MSRB's strategic direction.

External Affairs

Numerous staff at the MSRB engage and communicate with external stakeholders, and a core group of 12 is responsible for managing and supporting these activities. The MSRB's outreach, communications and other external affairs staff oversee MSRB events, training, education and related activities, including regular interaction with Capitol Hill and development of the MSRB's MuniEdPro® courses. In FY 2019, the MSRB will host listening sessions with stakeholders and conduct Town Hall meetings around the country to solicit industry feedback, and develop a podcast series on compliance issues and developments in the market.

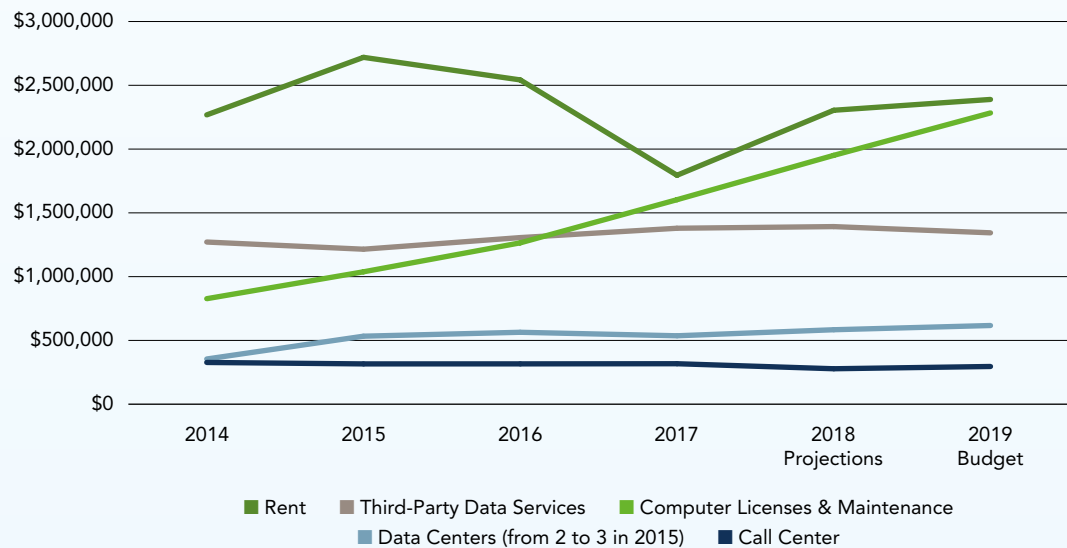
Controlling Expenses

The MSRB has a deeply rooted culture of controlling operational costs. Expenses historically and consistently come in under budgeted levels. As a result, the MSRB in FY 2019 is reducing consulting funds in the budget and capitalizing on technological efficiencies that allow for the absorption of increases in personnel and operating expenses. As a result, the MSRB is delivering a flat expense budget compared to the prior year.

Personnel is the largest single component of the MSRB's expense budget, and management is controlling this expense by reducing headcount to 131 positions, a reduction of three positions from the prior year. A compensation strategy guides the organization's recruitment and retention efforts. This strategy also establishes the MSRB pay-for-performance and comprehensive, total-rewards approach to compensation.

The MSRB's careful financial oversight is evident in the management of key expense areas. The expense trends graph below shows continually rising technology costs as the organization strives to enhance transparency, maintain systems integrity and security, and cultivate and leverage data. Rent expense dropped following the 2015 move to Washington, DC from Alexandria, Virginia because of lease incentives and has since returned to more typical levels.

KEY HISTORICAL EXPENSE TRENDS



Reserves

With the level of reserves projected to be above target at September 30, 2018 due to revenues above budget and expense savings achieved, the MSRB determined to budget a \$1.7 million operating deficit in FY 2019, provide a \$2.6 million temporary reduction in the three primary fees during the MSRB's first quarter of FY 2019 and designate \$5 million of FY 2018 reserves to explore and potentially migrate to the cloud. The Board establishes the target level for reserves, and a Board funding policy provides guidance and continuity in funding decisions and helps align strategic, operational and financial planning, as well as manage level of reserves. This year, the Board will review the reserves target and determine if a change is warranted while ensuring the organization maintains sufficient resources to operate without interruption and remain financially sound. The FY 2019 budget shows out-year projections falling below the current reserves target beginning in FY 2020. Depending on the outcome of actual results as compared to the reserves target (which could potentially change based on the conclusion of the Board's reserves target analysis), additional revenue sources or increases in current revenue sources would need to be considered in the future to maintain the financial health of the organization, provided expenses are properly calibrated.

ORGANIZATIONAL RESERVES VS. TARGET



Financial Transparency

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

- [Annual Reports and Audited Financial Statements](#)
- [Sources and Uses of Funding](#)
- [FY 2017 IRS Form 990](#)

The MSRB also makes the following key financial policies available:

- [Funding Policy](#)
The MSRB's funding policy provides guidance and continuity in funding decisions and helps align strategic, operational and financial planning.
- [Fine-Sharing Policy](#)
The MSRB's fine-sharing policy sets parameters for the use of fine revenue collected by the Securities and Exchange Commission and the Financial Industry Regulatory Authority for violations of MSRB rules.
- [Investment Policy](#)
The MSRB's investment policy establishes guidelines for the investment of MSRB funds.

MSRB Strategic Goals

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

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



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