



MSRB
Municipal Securities
Rulemaking Board



ANNUAL REVIEW 2009

MUNICIPAL SECURITIES RULEMAKING BOARD



MUNICIPAL SECURITIES RULEMAKING BOARD 2009-2010

BANK REPRESENTATIVES



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



PETER T. CLARKE
Chair, MSRB
Managing Director
J.P. Morgan Securities Inc.
Term Ends September 30, 2010



DONALD S. O'BRIEN
Managing Director
Senior Municipal Underwriter
Morgan Keegan
Term Ends September 30, 2010



MARTIN H. VOGTSBERGER
Vice President and
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

PUBLIC REPRESENTATIVES



TERRY AGRISS
President
TAgriss Advisory Services
Term Ends September 30, 2010



FRANK THOMAS HOWARD
Executive Director
Office of Financial
Management, Finance and
Administration Cabinet,
Commonwealth of Kentucky
Term Ends September 30, 2011



DAVID A. LIPTON
Director
Securities Law Program
Catholic University
of America
Term Ends September 30, 2010



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 Corp.
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 MURPHY
Vice Chair, MSRB
Senior Vice President
Stifel Nicolaus and Co.
Term Ends September 30, 2010



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 11, 2011

ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) was established in 1975 by Congress to protect investors and the public interest by promoting a fair and efficient municipal securities market. To accomplish this mission, the MSRB regulates securities firms and banks that underwrite, trade and sell municipal securities, and collects and disseminates market information. 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 is composed of members from the municipal securities dealer community and the public, and is a self-regulatory organization subject to oversight by the Securities and Exchange Commission. The MSRB's day-to-day operations are run by a 75-member professional staff in Alexandria, VA.

Senior Management

LYNNETTE KELLY HOTCHKISS
Executive Director

HAROLD L. JOHNSON
Deputy Executive Director

ERNESTO A. LANZA
General Counsel

JANET EAKES
Chief Operating Officer

MELANIE S. RICHARDSON
Chief Financial Officer

JENNIFER A. GALLOWAY
Chief Communications Officer

AMY SCHABACKER DUFRANE
Chief Administrative and
Human Resources Officer

AL MORISATO
Chief Information Officer

CONTENTS

- LETTER FROM THE CHAIR TWO
- RULEMAKING FOUR
- PROFESSIONAL QUALIFICATION NINE
- REGULATORY COORDINATION AND ENFORCEMENT SUPPORT TEN
- MARKET INFORMATION TRANSPARENCY ELEVEN
- EDUCATION AND OUTREACH THIRTEEN
- RESEARCH PROGRAM FOURTEEN
- MARKET LEADERSHIP FIFTEEN
- FINANCIAL STATEMENTS SIXTEEN

Letter from the Chair

It is with great privilege that I introduce this annual report on the activities of the Municipal Securities Rulemaking Board. As the regulatory organization overseeing municipal securities dealers, the MSRB's role is to protect investors and the public interest by ensuring that dealers act fairly, equitably and in a transparent manner, and that the market operates in the most efficient manner possible.

During fiscal year 2009, the MSRB became more important to municipal securities investors than ever before. Our most significant achievement was the full-scale launch of the Electronic Municipal Market Access (EMMA) website, which provides a free, centralized venue for retail and institutional investors, market makers, and others to access disclosure, trade price and interest rate information about municipal securities. Never before has the market had such unfettered access to information.

The MSRB also put in place new rules on disclosure and market transparency — encompassing access to information, variable and auction rate securities and all-electronic official statements as well as on market efficiency and conflicts of interest with respect to political contributions. Details about these developments can be found beginning on page 4.

Regulatory and enforcement support are fundamental to the MSRB's mission and this year we streamlined delivery of critical data to enforcement agencies.

Throughout fiscal 2009, the MSRB served as a resource to legislators and policymakers. In March 2009, my

During fiscal year 2009, the MSRB became more important to municipal securities investors than ever before.

predecessor as MSRB Chair, Ronald A. Stack, testified before the Senate Banking Committee where he offered ideas to improve municipal securities market oversight and strengthen investor protection through measures such as a more coordinated enforcement regime, the creation of a Treasury Department office or other significant federal position dedicated to the unique needs of the municipal securities marketplace, and the expansion of regulation to unregulated municipal financial advisors. We look forward to continuing to provide technical assistance on all of these important issues.

To fulfill our mission, the MSRB must ensure that its resources are adequate and responsibly managed. Our financials provide a full picture of our revenues and expenditures during fiscal 2009.

The MSRB prides itself on dedication to its investor protection mission and is committed to building upon our efforts in the years to come.

Sincerely yours,



Peter T. Clarke
Chair, Municipal Securities
Rulemaking Board



2009 IN REVIEW

During this past year, the MSRB undertook an unprecedented number of initiatives that have had a substantial impact on virtually every aspect of the municipal securities market. To better provide the regulatory services that are at the core of the MSRB's statutory mission, the MSRB has established a number of distinct programs aimed at achieving its investor protection goals in an efficient and effective manner.

THE KEY MSRB PROGRAMS ARE AS FOLLOWS:

- » **Rulemaking**
- » **Professional Qualification**
- » **Regulatory Coordination and Enforcement Support**
- » **Market Information Transparency, including:**
 - **Primary Market Disclosure**
 - **Continuing Disclosure**
 - **Transaction Data**
 - **Short-term Disclosure**
 - **Political Contribution Disclosure**
- » **Education and Outreach**
- » **Research**
- » **Market Leadership**

This Annual Review provides a report of the activities of the MSRB for its fiscal year ended September 30, 2009 ("fiscal 2009"), and includes the accompanying audited financial statements beginning on page 16. Market statistics through December 31, 2009 are also included.

This Annual Review and information contained herein are for general educational and informational purposes only and may not be used or relied upon by persons considering or making investment decisions. The information provided in this Annual Review is provided without warranties (express or implied), including but not limited to warranties of merchantability, non-infringement and fitness for a particular purpose. Neither the MSRB, nor any supplier shall in any way be liable to any recipient of the information contained in this Annual Review, regardless of the cause or duration, including but not limited to any inaccuracies, errors or omissions or other defects in the information or for any damages resulting therefrom.

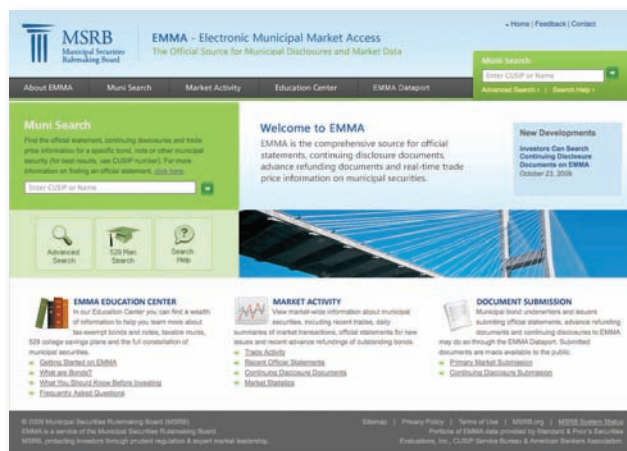
© 2010 Municipal Securities Rulemaking Board

During fiscal 2009, the MSRB Rulemaking Program undertook new market transparency programs, updated rules and issued significant interpretive guidance for broker-dealers and banks participating in the municipal securities market, known collectively as municipal dealers. These initiatives improved the availability of market information for investors and the public, increased disclosure about political contributions in the municipal market and improved the overall operation of the municipal securities market. Timely and well-informed rulemaking and interpretive guidance responsive to changing market conditions are critical to the MSRB's mission to protect investors.

RULES ON DISCLOSURE AND MARKET TRANSPARENCY

Access to Market Information

Much of the year was devoted to bringing to completion rulemaking initiatives necessary to achieve a vast expansion of the information available through the MSRB's Electronic Municipal Market Access (EMMA) website. The MSRB launched EMMA on a limited scale in March 2008 as a resource to investors and the general public for historical and current primary market disclosures and trade price information. Throughout fiscal 2009, the MSRB reached a series of critical milestones, beginning with the launch of daily market statistics in December 2008, interest rate transparency for the auction rate market in January 2009 and interest rate transparency for variable rate demand obligations in April 2009. Another milestone occurred on



June 1, 2009, with the conversion of the EMMA pilot to a permanent service of the MSRB and the availability of all-electronic official statements, followed by the establishment of EMMA as the official repository for continuing disclosure documents as of July 1, 2009. This series of achievements was integral to the MSRB's objective of providing a centralized venue for retail investors to access key disclosure, trade price and interest rate information about municipal securities in both the primary and secondary market.

Rulemaking activities relating to the development of these EMMA resources are discussed below; see page 11 for a description of the types of information and services provided through the various MSRB Market Information Transparency Programs.

Variable and Auction Rate Security Transparency

A key MSRB initiative in fiscal 2009 was establishing market transparency for municipal auction rate securities and variable rate demand obligations — securities with interest rates that are adjusted from time to time but for

which public disclosure of such critical interest rate information has been unavailable to retail investors and the general public.

To provide for the collection and dissemination of interest rate and other key data on these securities, the MSRB amended its Rule G-34 to require the relevant municipal dealers to report periodic interest rate adjustments and descriptive information about auction rate securities and variable rate demand obligations.

Municipal dealers began reporting auction rate data to the MSRB in January 2009 and started submitting variable rate demand obligation information in April 2009. This data is published on the MSRB's EMMA website, where investors can view it for free. The MSRB's disclosure program for variable rate securities is now providing market participants, for the first time, with access to market-wide short-term interest rate reset information for municipal auction rate securities and variable rate demand obligations.

All-Electronic Official Statements

In fiscal 2009, the MSRB ushered in a new regulatory framework to allow for the efficient all-electronic dissemination of key disclosure information for the municipal securities market. By establishing a requirement for municipal dealers to submit primary market disclosure documents to the MSRB in electronic form, the MSRB accelerated public access to official statements, which provide key details and information to investors in connection with their municipal securities investments. In addition, investors purchasing new issues of municipal securities, who previously typically had to wait for delivery of paper copies of official statements shortly after completion of their transactions, now generally have free access through EMMA to the official statement before settlement of their trade.

The MSRB created this regulatory framework for an electronic official statement standard by expanding MSRB Rule G-32, on disclosures in connection with new issues, and retir-

ing Rule G-36, on delivery of official statements. Municipal dealers selling municipal securities to a customer in a primary offering must, by no later than trade settlement, inform a customer as to how to locate the official statement on EMMA if they do not deliver a printed copy to the customer. Municipal dealers still must provide printed copies of official statements to any customer upon request. The underwriter for a new issue must submit the official statement electronically to EMMA for public dissemination by the earlier of the new issue closing date or the day after receipt of the document from the issuer.

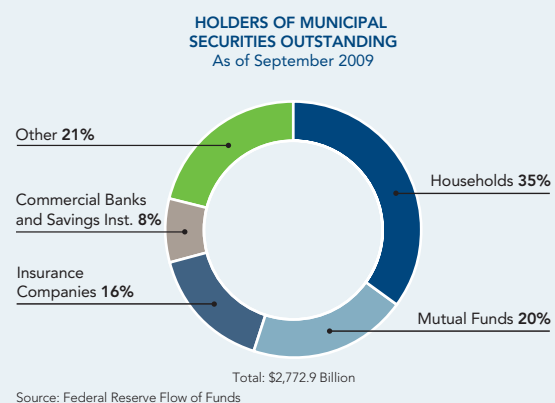
GUIDANCE ON FAIR PRACTICE RULES

Dealers' Duties to Investors

The MSRB also provided guidance to municipal dealers in 2009 related to their fair practice duties under MSRB Rule G-17, including disclosure, suitability and fair pricing obligations to individual investors. This guidance was provided in light of the significant

Individual Investors Own Majority of Municipal Bonds

Individual investors are the primary owners of municipal securities. They own more than half of the \$2.8 trillion municipal bonds outstanding, either directly or through mutual funds. Municipal bonds are issued for a variety of purposes by state and local governments and their agencies. In addition to traditional government purposes such as public schools, government buildings, roads and bridges, municipal bonds are also issued to finance public projects such as airports, hospitals and affordable housing.



changes in the marketplace due both to the financial turmoil that began in 2008 and to changes in the information available to the marketplace through EMMA. In particular, the MSRB made clear that municipal dealers must make use of the broad range of information available from EMMA and other established industry sources to advise investors of important features and considerations about their investment, to weigh whether an investment recommendation is suitable for the investor, and to establish a fair and reasonable price for a trade in the municipal security.

With respect to variable rate demand obligations, the MSRB reminded municipal dealers to provide investors in these securities with material information about the security and the transaction by the time they place a purchase order. When making recommendations to investors about variable rate securities, municipal dealers also have an obligation to consider the unique

liquidity features and risks applicable to such securities, including the credit strength of the provider of the letter of credit or standby bond purchase agreement that typically is used to provide liquidity for these securities and the ability of the issuer to provide credit or liquidity for the securities in the event the liquidity provider fails to perform on its obligation.

Dealers’ Obligations to Issuers

Municipal dealers have a duty to deal fairly with all participants in the municipal securities market, including the municipal securities issuers whose new bond issues they underwrite. Specifically, MSRB Rule G-17 requires municipal dealers to deal fairly with issuers in connection with all aspects of the underwriting of their municipal securities, including representations they make to the issuer regarding investors and retail order periods. The MSRB’s guidance on this obligation emphasized that fair dealing with an issuer is dependent upon the facts and circumstances of an underwriting

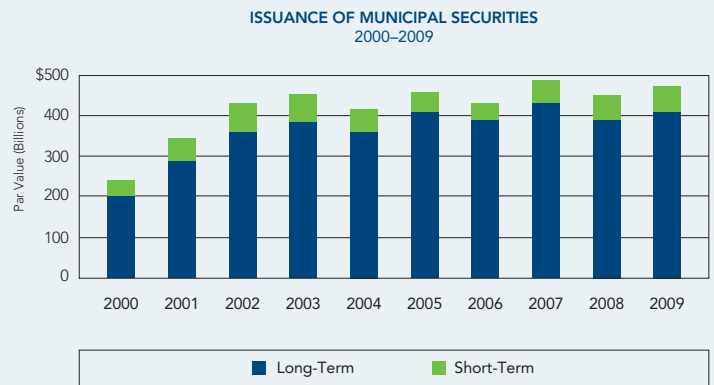
and not solely on the price obtained in connection with the underwriting of the bond issue. The MSRB also reminded municipal dealers of the rule’s application to certain payments made and expenses reimbursed during the municipal bond issuance process.

Customer Priorities in New Issue Sales

The MSRB proposed in August 2009 new rules and interpretive guidance to strengthen the fair practice obligation of municipal dealers that underwrite new issues to, in general, favor orders placed by customers over their own orders or orders of their related accounts. The proposal recognizes the increased use of retail order periods by municipal issuers and provides that municipal dealers have an obligation to honor the terms of such retail order periods. The proposal continues to recognize the balance that must be struck in the underwriting of a new issue and retains the needed flexibility of the managing underwriter to make changes to the syndicate’s priority

Issuance Surges in Second Half of 2009

After a slowdown during the first half of 2009 due to problems in the credit markets, municipal securities issuance surged to the second-highest annual amount in history, driven in large part by issuance of Build America Bonds. Overall, more than \$474 billion worth of municipal securities were issued in 2009, with Build America Bonds accounting for nearly \$64 billion of that. Issuance of short-term municipal securities, which has been rising since 2006, increased again in 2009 to \$64 billion.



Source: Thomson Reuters

provisions, but introduces new record-keeping requirements designed to ensure that enforcement agencies are able to monitor for compliance effectively. The proposal was filed with the Securities and Exchange Commission (SEC) in November 2009.

RULES ON MARKET INTEGRITY

Political Contributions Regulations

The MSRB's rules on political contributions by municipal dealers to municipal bond issuer officials (Rule G-37) and its ban on the use of outside political consultants to obtain business from municipal issuers (Rule G-38) have become well-known standards for reducing conflicts of interest in the municipal securities market. Other regulators and lawmakers look to the MSRB's pay-to-play rules as a model for curbing undue influence in the financial industry.

In fiscal 2009, the MSRB undertook its periodic review of Rule G-37 on

political contributions to ensure that it continues to meet the needs of the evolving marketplace. In October, the MSRB proposed an expansion of Rule G-37 to require that municipal dealers publicly disclose most contributions they make to bond ballot campaign committees. If approved, this change, which the MSRB filed with the SEC for approval, will enhance public awareness of municipal broker-dealer and bank funding of bond ballot campaigns.

The MSRB also sought industry comment on potential disclosure of political contributions made by political action committees of bank and bank holding companies affiliated with municipal dealers to municipal government officials that award bond underwriting business. In addition, the MSRB has provided guidance to the industry on compliance with Rule G-37 in the context of increasing levels of municipal broker-dealer and bank consolidation.

GUIDANCE ON NEW PRODUCTS

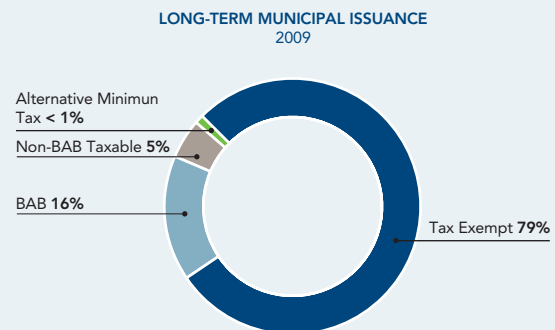
Build America Bonds

During 2009, more than \$60 billion in taxable Build America Bonds were issued by state and local governments. These bonds were made possible by the Administration's financial stimulus package, which provides a partial federal government subsidy of the borrowing costs. Build America Bonds emerged as an important new asset class that helped issuers access the capital markets during the financial crisis and attracted a more diverse investor base than typically has purchased municipal bonds.

Given the volume and uniqueness of Build America Bonds, the MSRB closely monitored activity in this market and in April provided guidance to municipal dealers regarding the application of MSRB rules to the product.

New Taxable Bonds Play a Major Role in Market

The emergence of Build America Bonds, which are taxable municipal securities, drove up the proportion of all taxable municipal bonds to 21%, or \$64 billion, of the \$409 billion in long-term municipal bonds issued in 2009. Since 2000 taxable bonds — excluding those subject to the alternative minimum tax — have accounted for just seven percent of the municipal market on average.



Long-term securities include all maturities of 13 months or more.
Source: MSRB, Thomson Reuters, Bloomberg

The MSRB reminded them that, although taxable, Build America Bonds are municipal securities subject to all MSRB investor protection and other rules on clearance and settlement, uniform practice, political contributions, professional qualifications and supervision.

In June the MSRB provided further guidance on Build America Bond sales, in particular the application of MSRB Rule G-37 on political contributions to employees of municipal dealers that solicit Build America Bond business. The MSRB issued a third Build America Bond notice in August providing clarification about the information required to be included on customer confirmation statements. For transactions effected on the basis of “yield to average life,” Rule G-15 on customer confirmations requires the confirmation to display that yield as well as the yield computed to the lower of an “in whole” call or maturity.

California Warrants

Another municipal market development in 2009 was the issuance of registered warrants, also known as IOUs, by the State of California in July during its budget impasse. The MSRB was concerned that unregulated market participants might seek to take advantage of holders of these IOUs in need of cash by offering to purchase them at steep discounts that did not reflect their true market value. When the SEC determined that the IOUs were municipal securities, the MSRB issued guidance that the purchase, sale and trading of California’s registered warrants by municipal dealers were subject to MSRB rules, including in particular

those on disclosure, fair pricing and fair dealing. The MSRB noted that all pricing of California warrants must be based on their fair market value and that municipal dealers acting as intermediaries between buyers and sellers must be registered with the MSRB and must comply with MSRB rules on professionalism and fair practice.

RULES ON MARKET EFFICIENCY

New Issuer Syndicate Practices

In September 2009 the SEC approved the MSRB’s proposal to amend Rule G-11 on new issue syndicate practices to shorten the time periods for settlement of syndicate accounts, secondary market trading accounts and the payment of designations. The changes are designed to reduce the exposure of members of syndicate and secondary market accounts to potential risks of deterioration in the credit of the syndicate or account manager while the account settlements are pending. The amendments to G-11 were effective after October 28, 2009.

Confirmation and Settlement Procedures

The MSRB also provided municipal dealers guidance related to confirmation, clearance and settlement of transactions. The MSRB interpreted a requirement in Rule G-15 to permit a dealer to satisfy certain obligations to institutional customers by permitting a clearing agency or qualified vendor to reference a website address in an electronic confirmation slip delivered to certain clients.

RULES ON MSRB ADMINISTRATION

Fees and Revenue

In 2009 the MSRB made changes to its fee structure for dealers to ensure that it has sufficient financial resources to carry out its mission. The MSRB amended Rule A-13 on underwriting and transaction assessments for municipal dealers to eliminate underwriting fee exemptions on certain primary offerings of municipal securities. The amendment followed a change to Rule A-14 that increased the annual fees the MSRB collects from dealers for municipal securities activities. The MSRB also filed with the SEC in November a development fee in connection with and to partially defray the costs of its licensing examinations, effective in January 2010.

Administrative Changes

During 2009, the MSRB made administrative and operational amendments to MSRB Rules A-3, on membership on the Board, A-4, on meetings of the Board, A-5, on officers and employees of the Board, and A-6. Broadly, the changes ensure that the Board’s by-laws are consistent with current good corporate governance practices.

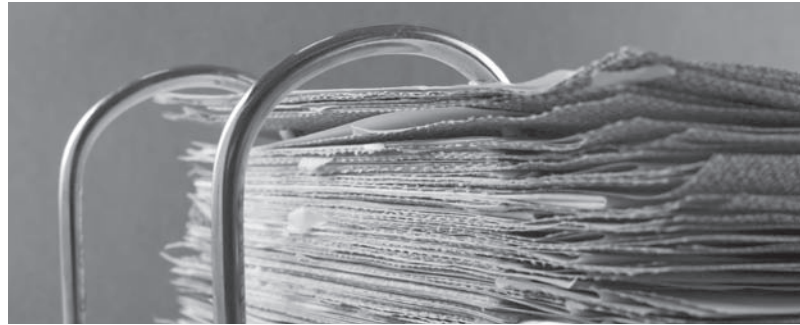


The MSRB Professional Qualification Program fosters competency of municipal broker-dealer and bank professionals, and compliance with MSRB rules through required examinations and continuing education activities. The MSRB has established licensing examinations for municipal securities representatives (Series 52), municipal securities principals (Series 53), municipal fund securities limited principals (Series 51) and, together with other securities regulators, the general securities sales principal (Series 9/10). The MSRB also provides municipal securities content to the general securities representative licensing examination (Series 7) established by the Financial Industry Regulatory Authority.

The MSRB Professional Qualification Program 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 program also is an active participant in the Securities Industry Regulatory Council on Continuing Education, which provides advice and consultation to the various securities regulators to ensure the development, implementation and ongoing operation of the securities industry-wide continuing education program.

Regulatory Coordination and Enforcement Support

The MSRB Regulatory Coordination and Enforcement Support Programs facilitate market surveillance, inspection and enforcement of MSRB rules by providing 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 Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA) — and four bank regulators — the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Reserve and the Office of the Comptroller of the Currency — monitor the municipal securities activities of municipal dealers. This surveillance ensures that underwriting, trading and selling of municipal bonds is conducted in compliance with MSRB rules.



Regular support and exchanges between the MSRB and these enforcement agencies include the provision of standard data reports, training on MSRB market information transparency programs, operation of a dedicated website by the MSRB for enforcement agencies, periodic meetings and operational support. Enforcement agencies also receive direct feeds of trade reporting data and, beginning in 2009, primary market data from the MSRB's Market Information Transparency Programs.

MSRB Market Information Transparency Programs provide for the collection and dissemination of market documents and data. In 2009, the MSRB made municipal continuing disclosures available, without charge, to investors for the first time — a historic accomplishment that was the culmination of market transparency initiatives that allowed the MSRB to create its Electronic Municipal Market Access (EMMA) website, an integrated electronic resource for investors at emma.msrb.org.

CONTINUING DISCLOSURES

In July 2009, the SEC designated the MSRB as the single, official repository for continuing disclosure documents provided by municipal issuers and other obligated persons under continuing disclosure agreements entered into for new issues under SEC Rule 15c2-12. These documents provide on-going information about outstanding municipal securities and include annual financial and operat-

ing data as well as notices of various material events such as defaults and rating changes. For the first time, this critical disclosure information — which historically had been difficult and expensive to access, particularly for individual investors — became widely available and accessible, for free, in a centralized location on EMMA. Since July 1, 2009, the MSRB has made more than 55,000 continuing disclosure documents available to the public on EMMA.

OFFICIAL STATEMENTS

The MSRB has been collecting and making official statements available to the public since 1990 and made many available for free in electronic form on EMMA in 2008. In June 2009, the MSRB implemented an all-electronic standard for official statements and primary market disclosure documents for the municipal securities market to make the dissemination of this information more rapid and cost effective. While electronic submission of official statements previously was voluntary, revised MSRB Rule G-32, which went into effect that month, required municipal securities underwriters to submit all official statements and advance refunding documents to EMMA electronically. During calendar 2009, the MSRB made more than 15,000 new official statements available to the public, bringing the number of official statements available on EMMA to nearly 300,000.

“For the first time, investors have been given access to municipal issuers’ financial filings and records of trading activity, free of charge.”

— *The New York Times*, August 30, 2009, writing about EMMA and the municipal market.

VARIABLE AND AUCTION RATE SECURITY DATA

Fiscal 2009 saw significant achievements in collecting interest rate information about variable rate and auction rate securities. The SEC approved the MSRB's request to collect critical market information on auction rate securities beginning January 30, 2009 and on variable rate municipal securities as of April 1, 2009. Since February 2009, the number of rate resets for auction rate securities has averaged nearly 3,000 per month with 82 percent being reset at the maximum rate. This rate reset information is available for free on EMMA. Meanwhile, the number of variable rate demand obligation interest rate resets available on EMMA has averaged more than 90,000 per month since April 2009.

The MSRB is also planning to expand information available on short-term debt securities through EMMA, such as auction rate security bidding information, copies of liquidity facility documents and documents detailing auction procedures for the bonds.

This information will provide investors with greater insight into the securities they own and should promote greater liquidity in this critical sector of the municipal securities market.

TRANSACTION DATA

In 2009, the MSRB collected data on more than 10 million municipal transactions worth close to \$3.8 trillion. This data was disseminated to the marketplace on a real-time basis through the EMMA website and through information feeds to commercial information vendors and others.

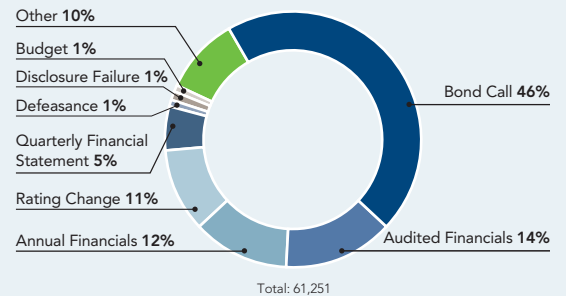
POLITICAL CONTRIBUTIONS INFORMATION

The MSRB receives quarterly reports of political contributions and municipal securities business from municipal dealers active in the new issue market. This information, disclosed on MSRB Form G-37, is publicly available on the MSRB website at msrb.org.

Continuing Disclosures Available on EMMA

On July 1, 2009, the MSRB became the official repository for continuing disclosure documents prepared by municipal bond issuers. These disclosures contain material information about existing bonds. Issuers began submitting continuing disclosures to the MSRB on a voluntary basis in June 2009. During the seven months ended December 31, 2009, the MSRB collected — and made available free of charge on its EMMA website — more than 61,000 continuing disclosure documents. Information about bond calls, audited and annual financial statements, and ratings changes made up the majority of disclosures provided by bond issuers.

CONTINUING DISCLOSURE SUBMISSIONS
June-December 2009





The MSRB Education and Outreach program delivers information and data about the municipal market to as many audiences as possible. Conferences, webinars, industry panels, seminars and publications are among the ways the MSRB provides relevant information to the municipal bond community and other interested parties. The EMMA website also serves as an education and outreach tool, providing real-time information about the market.

In 2009, the MSRB was particularly active in keeping market participants apprised of changes in disclosure and new information submission and dissemination services. The MSRB hosted an extensive series of live webinars to educate municipal dealers and members of the issuer community about submitting documents to the MSRB.

Fact sheets, user manuals and frequently asked question documents supplemented this outreach effort that continued throughout the year. The MSRB also issued a joint advisory with FINRA to retail investors on investing in municipal bonds.

The MSRB also held multiple formal outreach events in 2009. Hundreds of municipal bond participants attended MSRB outreach programs with MSRB Board members in New Orleans, New York and San Francisco.

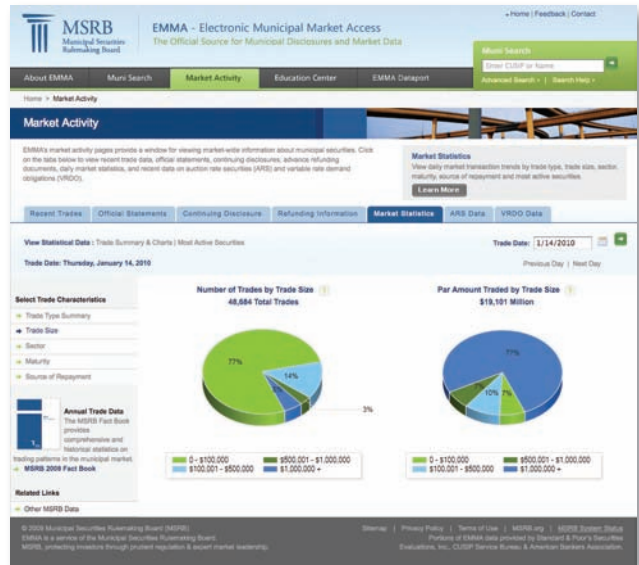
Training seminars for municipal dealers' legal and compliance officials — often in conjunction with other groups — are another way the MSRB interacts with market participants. In 2009, the MSRB and the Securities Industry and Financial Markets Association jointly hosted compliance seminars in New York and Chicago. The MSRB also co-hosted a similar conference in Memphis with the Regional Bond Dealers Association.

Research Program

The MSRB Research Program facilitates investor protection and supports other MSRB programs by producing and disseminating analytical and statistical market information for policy support and education.

The production of municipal market trading trends and statistics on EMMA provides investors with comprehensive data on municipal bonds, and investors are able to view detailed records of bond activity, including municipal security size, sector, and maturity.

In July, the MSRB published its first *Fact Book*, a comprehensive reference for historical trade data and statistics about the \$2.8 trillion municipal bond market. The *Fact Book* provides for the first time a compilation of key municipal market statistics unavailable elsewhere, with aggregate data on more than 40 million trades made in the last five years.



MSRB research also supported the publication in 2009 of several reports, including *Build America Bonds: Issuance and Trade Activity*, and *Unregulated Municipal Market Participants*. MSRB research also supports other key MSRB initiatives and provides statistical information to industry regulators at the SEC, the Treasury Department and the Federal Reserve.



Throughout the year, the MSRB provided technical advice to key U.S. Senate and House Committees about the municipal market.

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

During 2009, in the wake of challenges to the municipal market and efforts to reform the nation's financial infrastructure, the MSRB provided market leadership in several areas. In January 2009, the MSRB held its annual MSRB Roundtable to bring together market participants for discussion about legislation, trends and activities affecting the municipal securities market.

In February 2009, the MSRB provided Congress with recommendations for bringing unregulated intermediaries in the municipal securities market under federal oversight and outlined its support for additional changes to the overall federal financial regulatory structure. In March the MSRB asked

the Treasury Department to extend the Department's Temporary Guarantee Program for Money Market Funds because of its importance to tax-exempt money market funds and for maintaining liquidity in the municipal variable rate securities market.

In April the MSRB articulated its support for increased accessibility to all credit ratings for municipal bonds on the grounds that retail investors would benefit from clearer articulation of the considerations used in the ratings process, increased transparency in that process and the disclosure or elimination of potential conflicts of interest.

Throughout the year, the MSRB provided technical advice to key U.S. Senate and House Committees about the municipal market. The MSRB also provided market statistics and its municipal expertise and data to the U.S. Treasury Department and the Federal Reserve. Former MSRB Chair Ronald A. Stack testified before the Senate Banking Committee on unregulated market participants and the role of the MSRB in municipal market disclosure.

The MSRB also provided leadership in 2009 by convening its four industry advisory groups multiple times throughout the year to discuss vital topics affecting municipal financing, including timely issuer disclosure, particularly information regarding derivative transactions and the need for federal assistance for the municipal market.

Financial Statements

I am pleased to present the MSRB's audited financial statements for fiscal year 2009.

As a self-regulatory organization, the MSRB takes great care in managing its finances to accomplish our mission of investor protection. Our revenues come almost exclusively from mandatory fees assessed on dealers for market activities, including underwriting and transactions, and annual fees. Return on investments, data subscriber fees and publication charges account for the balance of MSRB's annual revenues.

In fiscal 2009, the financial position of the MSRB was significantly affected by the economic crisis and the drop in number of new municipal bond issues. Issuance of long-term municipal bonds declined 16% during the fiscal year and MSRB revenue declined by 11.4%. After the end of our fiscal year on September 30, 2009, new issue bond volume rebounded dramatically, which should help to bolster the MSRB's financial position for fiscal 2010.

Concurrent with decreased revenue, the MSRB made a substantial investment in new initiatives, including the Electronic Municipal Market Access (EMMA) website and the systems and technology that support it. We view the associated cash outlay as an important investment in the municipal market. The MSRB's policy is to maintain cash and liquid investments at a level not to exceed one year's expenses. Our investment in EMMA and associated costs caused our fund balance to drop below this target level.

In fiscal 2009, the MSRB authorized changes to our revenue sources to establish a more stable, long-term revenue base and ensure a more equitable allocation of assessments upon the municipal dealers that fund the MSRB's operations. We increased our annual registration fee from \$300 to \$500 for the fiscal year beginning on October 1, 2009, the first increase in this fee since 2003. We added a new fee to be assessed on individuals taking certain professional qualifications examinations beginning in January 2010. Finally, we amended our underwriting assessment to remove certain exemptions and to establish a single uniform assessment rate of \$.03 per \$1,000 par value by eliminating the reduced \$.01 rate that had been assessed on certain short-term issues. This accurately reflects the expenses involved in regulating both bonds and notes, and better captures the distribution of these deals in the municipal marketplace.

As the economic recovery slowly takes hold and the financial industry regulatory structure undergoes reform, financial challenges will remain, both for the MSRB and for the municipal dealers that fund our operations. We will continue to serve as careful stewards of our resources and apply them judiciously toward our statutory goal of protecting investors and the public interest.



Alan Murphy
Chair, MSRB Finance Committee



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, 2009 and 2008, 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, 2009 and 2008, 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.

Grant Thornton LLP

McLean, Virginia
December 2, 2009

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

STATEMENTS OF FINANCIAL POSITION

| <i>September 30,</i> | 2009 | 2008 |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 1,474,170 | \$ 1,179,000 |
| Accounts receivable, net | 3,687,655 | 2,658,676 |
| Accrued interest receivable | 162,753 | 216,417 |
| Other assets | 185,141 | 89,974 |
| Investments | 18,244,014 | 23,683,731 |
| Fixed assets, net | 7,023,931 | 4,092,493 |
| Total Assets | 30,777,664 | 31,920,291 |
| Liabilities and Net Assets | | |
| Accounts payable and accrued liabilities | 1,610,020 | 1,634,806 |
| Accrued vacation payable | 705,944 | 271,289 |
| Deferred rent | 1,907,295 | 1,945,168 |
| Deferred compensation | 70,288 | 29,264 |
| Note payable | 97,629 | — |
| Total Liabilities | 4,391,176 | 3,880,527 |
| Net Assets—Unrestricted | 26,386,488 | 28,039,764 |
| Total Liabilities and Net Assets | \$ 30,777,664 | \$ 31,920,291 |

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

| Year ended September 30, | 2009 | 2008 |
|---|----------------------|----------------------|
| Revenue | | |
| Underwriting assessment fees | \$ 10,837,652 | \$ 12,188,220 |
| Transaction fees | 7,150,905 | 7,723,365 |
| Annual fees | 622,700 | 644,864 |
| Data subscriber fees | 441,392 | 390,210 |
| Initial fees | 8,400 | 8,800 |
| Other income | 29,757 | 67,668 |
| Investment return | 533,667 | 1,123,096 |
| Board manuals | 3,511 | 4,526 |
| Total Revenue | 19,627,984 | 22,150,749 |
| Expenses | | |
| Market information transparency programs and operations | 10,073,932 | 7,224,140 |
| Administration and operations | 5,612,560 | 4,619,132 |
| Rulemaking and policy development | 2,994,537 | 4,253,688 |
| Board and committee | 1,473,049 | 1,545,968 |
| Professional qualifications | 616,748 | 741,022 |
| Education and communications | 510,434 | 177,601 |
| Total Expenses | 21,281,260 | 18,561,551 |
| Change in Net Assets | (1,653,276) | 3,589,198 |
| Net Assets, beginning of year | 28,039,764 | 24,450,566 |
| Net Assets, end of year | \$ 26,386,488 | \$ 28,039,764 |

STATEMENTS OF CASH FLOWS

| Year ended September 30, | 2009 | 2008 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (1,653,276) | \$ 3,589,198 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 2,134,129 | 1,240,710 |
| Gain on disposal of fixed assets | — | 136,373 |
| Net amortization (accretion) of investment discounts | 102,293 | (67,386) |
| Unrealized loss (gain) on investments | 116,015 | (250,871) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,029,014) | 140,391 |
| Other receivable | 35 | 500,000 |
| Accrued interest receivable | 53,664 | (24,173) |
| Other assets | (95,167) | 11,847 |
| Accounts payable | (24,786) | 597,749 |
| Accrued vacation payable | 434,655 | (18,082) |
| Deferred rent | (37,873) | (22,857) |
| Deferred compensation | 41,024 | 29,264 |
| Net Cash Provided by Operating Activities | 41,699 | 5,862,163 |
| Cash Flows from Investing Activities | | |
| Purchases of fixed assets | (5,065,567) | (2,606,028) |
| Purchases of investments | (3,078,591) | (10,645,215) |
| Maturities of investments | 8,300,000 | 7,550,000 |
| Net Cash Provided by (Used in) Investing Activities | 155,842 | (5,701,243) |
| Cash Flows from Financing Activities | | |
| Proceeds from note payable | 121,576 | — |
| Payments on note payable | (23,947) | — |
| Net Cash Provided in Financing Activities | 97,629 | — |
| Net Increase in Cash | 295,170 | 160,920 |
| Cash, beginning of year | 1,179,000 | 1,018,080 |
| Cash, end of year | \$ 1,474,170 | \$ 1,179,000 |
| Supplemental Information | | |
| Interest paid | \$ 1,719 | \$ — |

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. Effective May 17, 1989, MSRB became incorporated as a not-for-profit, non-stock corporation in the Commonwealth of Virginia.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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 bonds and mutual funds. The U.S. Treasury Notes have various maturity dates through January 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.

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. Internal-use computer software is recorded at cost and amortized over its estimated useful life.

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. Costs associated with preliminary project stage activities, training, maintenance, and post implementation stage activities are expensed as incurred. Costs capitalized are amortized over its estimated useful life on a straight-line basis.

Underwriting Assessment Fees

The underwriting assessment fee is equal to a percentage of the face amount of all municipal securities, which are purchased from an issuer as part of a new issue. The fee charged is .001 percent or .003 percent of the par value of the offerings, as specified in Board Rule A-13. As described in this rule, certain transactions are exempt from underwriting fees. In September 2009, the MSRB filed a change to Rule A-13. Beginning December 1, 2009, the MSRB

will apply its underwriting assessment of \$.03 per \$1,000 paid by underwriters of 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 will continue to be exempt from the assessment. The change in assessments will also apply the \$.03 per \$1,000 assessment rate rather than the current rate of \$.01 per \$1,000 to all securities with a maturity of less than two years.

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 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 of \$300. Revenue is recognized when brokers or dealers are billed annually.

In August 2009, the MSRB filed a change to Rule A-14 on annual fees to set the annual fee for municipal securities dealers at \$500 instead of the current \$300. The annual fee was last increased in 2003 when it rose to \$300 from \$200. This will be applied as of October 1, 2009.

Data Subscriber Fees

MSRB collects, stores, and provides access to information pertaining to the municipal securities market. At the beginning of the fiscal year, MSRB operated three computer-based information systems: 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 all Forms G-37, G-38, and other documents. 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 fees revenue is recognized when received.

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. MSRB's policy is to limit credit risk by depositing its funds with high quality financial institutions. As of September 30, 2009, MSRB did not hold any cash balances in excess of federally insured limits. 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.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance to establish the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard has not had a material impact on MSRB's financial statements.

NOTE C—INVESTMENTS

Investments consist of the following at September 30:

| | 2009 | 2008 |
|---------------------|----------------------|----------------------|
| U.S. Treasury Notes | \$ 15,124,309 | \$ 23,654,467 |
| Government bonds | 3,037,500 | — |
| Mutual fund | 82,205 | 29,264 |
| | <u>\$ 18,244,014</u> | <u>\$ 23,683,731</u> |

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

| | 2009 | 2008 |
|---------------------------|-------------------|---------------------|
| Interest and dividends | \$ 649,682 | \$ 872,225 |
| Unrealized (losses) gains | (116,015) | 250,871 |
| | <u>\$ 533,667</u> | <u>\$ 1,123,096</u> |

NOTE D—FAIR VALUE MEASUREMENTS

Effective October 1, 2008, MSRB adopted new guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

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, 2009 based on the following level of hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------|------------------|----------------------|-------------|----------------------|
| U.S. Treasury Notes | \$ — | \$ 15,124,309 | \$ — | \$ 15,124,309 |
| Government bonds | — | 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:

| | 2009 | 2008 |
|---------------------------------------|--------------|--------------|
| Billed accounts receivable | \$ 3,219,087 | \$ 2,222,322 |
| Unbilled accounts receivable | 672,854 | 638,238 |
| | 3,891,941 | 2,860,560 |
| Less: allowance for doubtful accounts | (204,286) | (201,884) |
| | \$ 3,687,655 | \$ 2,658,676 |

NOTE F—FIXED ASSETS

Fixed assets consist of the following as of September 30:

| | 2009 | 2008 |
|---|--------------|--------------|
| Leasehold improvements | \$ 1,526,238 | \$ 1,283,521 |
| Office equipment | 1,845,781 | 1,729,267 |
| Furniture and fixtures | 1,366,767 | 1,407,007 |
| Capitalized software costs | 12,156,135 | 7,580,972 |
| | 16,894,921 | 12,000,767 |
| Less: accumulated depreciation and amortization | (9,870,990) | (7,908,274) |
| | \$ 7,023,931 | \$ 4,092,493 |

NOTE G—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. Total payments under this agreement totaled \$23,947 for the year ended September 30, 2009.

The future minimum payments under this agreement are as follows:

| | |
|------|-----------|
| 2010 | \$ 41,841 |
| 2011 | 55,788 |
| | \$ 97,629 |

NOTE H—COMMITMENTS

Operating Leases

MSRB leases office space and certain office equipment under operating and capital leases. In May 2001, MSRB moved its headquarters from Washington, D.C. to 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 the 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, | |
|------------------------------|---------------|
| 2010 | \$ 1,624,040 |
| 2011 | 1,692,421 |
| 2012 | 1,771,344 |
| 2013 | 1,833,336 |
| 2014 | 1,897,512 |
| Thereafter | 2,962,764 |
| Total minimum lease payments | \$ 11,781,417 |

Total rent expense for office space and equipment for the years ended September 30, 2009 and 2008, was \$2,468,189 and \$2,349,677, 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, 2009 and 2008, MSRB has included a liability related to this benefit of \$102,787 and \$102,066, respectively, in accounts payable.

In addition to the above agreement, MSRB entered into separation agreements in 2009 with three former employees of MSRB. The agreements call for payments of \$139,316 to be paid in full over the next year. In addition, MSRB has accrued a liability of \$57,360 for an employee who was given notice of termination during fiscal year 2009. A separation agreement is not yet in place for this employee. However, MSRB has determined the liability to be probable. MSRB has recorded a liability for the unpaid balance of these amounts as of September 30, 2009. As of September 30, 2009, MSRB has recorded a liability related to these agreements of \$148,842 in accounts 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 earlier as set forth by the agreement. As of September 30, 2009, MSRB has made payments of \$30,000 into a 457(f) account with Principal Financial. As of September 30, 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 \$70,288 as of September 30, 2009.

NOTE I—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 proceeding 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 five plan years of service. Employees may also make voluntary contributions to the plan. MSRB made contributions to the plan totaling \$625,112 and \$565,507 for the years ended September 30, 2009 and 2008, respectively.

All administrative expenses of the plan are paid by MSRB. Administrative expenses totaled \$17,453 and \$17,799 for the years ended September 30, 2009 and 2008, respectively.

In addition, MSRB has entered into separate agreements with two employees to provide supplemental benefits in excess of Internal Revenue Service limitations. These agreements were terminated during the year ended September 30, 2007. Final payments made by MSRB in accordance with these agreements were \$55,200 for the year ended September 30, 2008.

NOTE J—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, 2009 and 2008, since MSRB believes that there is no unrelated business income.

MSRB has elected to defer the adoption of the guidance related to income taxes which defines the confidence level that a tax position must meet before it can be recognized in the financial statements and requires the effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date until the year ended September 30, 2010. MSRB will continue to evaluate its uncertain tax positions using the guidance pertaining to the accounting for contingencies until they adopt the new guidance.

NOTE K—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 L—SUBSEQUENT EVENTS

In May 2009, the Financial Accounting Standards Board issued new guidance to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. The guidance introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date. MSRB adopted this guidance as of September 30, 2009.

MSRB evaluated its September 30, 2009 financial statements for subsequent events through December 2, 2009, 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.

In November 2009, the MSRB filed a new rule: A-16. This new 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).

On October 1, 2009, a new policy went into effect that provides for a single leave bank for employees of MSRB. Employees' annual leave balances and paid time off balances as of September 30, 2009 were reclassified into this single leave bank as of October 1, 2009. The accrued leave liability as of September 30, 2009 reflects the liability of both annual leave and paid time off balances as of September 30, 2009.



Highlights of MSRB Rulemaking and Market Information Activities Fiscal 2009

| | |
|-----------|---|
| DECEMBER | DEC 8, 2008 SEC Approves Continuing Disclosure Service on EMMA |
| JANUARY | JAN 9, 2009 SEC Approves MSRB Transparency Service for Municipal Auction Rate Securities and Municipal Variable Rate Demand Obligations |
| | JAN 30, 2009 Auction Rate Security Data Made Available on EMMA |
| APRIL | APR 1, 2009 Variable Rate Demand Obligation Data Made Available on EMMA |
| | APR 24, 2009 MSRB Provides Guidance on Build America Bonds and Other Tax Credit Bonds |
| MAY | May 22, 2009 SEC Approves All-Electronic Disclosure Service for Official Statements on EMMA |
| JUNE | JUNE 1, 2009 MSRB Establishes All-Electronic Disclosure Service for Official Statements on EMMA |
| | JUNE 9, 2009 MSRB Publishes Notices on Tax Credit Bonds and the Application of MSRB Pay-To-Play Rules |
| | JUNE 10, 2009 SEC Approves Submission of Voluntary Continuing Disclosures to EMMA |
| JULY | JULY 1, 2009 MSRB Launches Continuing Disclosure Service on EMMA Making it the Official Source for Municipal Bond Data and Disclosures |
| | JULY 10, 2009 MSRB Publishes Notices Regarding the Application of MSRB Rules to California Registered Warrants |
| | JULY 14, 2009 MSRB Issues Guidance on Sales Practice Obligations to Individual Investors in Municipal Securities |
| | JULY 21, 2009 MSRB Publishes First Municipal Bond Trading Fact Book |
| SEPTEMBER | SEPT 29, 2009 MSRB Publishes Reminder Notice on Fair Practice to Issuers of Municipal Securities |
| | SEPT 30, 2009 SEC Approves Amendments to Rules G-11, G-12 Regarding Settlement Dates and Payments of Designations |

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

www.msrb.org
www.emma.msrb.org

