



Municipal Securities Rulemaking Board

ANNUAL REPORT 2013





Daniel Heimowitz and Lynnette Kelly

Letter from MSRB Leadership

For almost four decades, the Municipal Securities Rulemaking Board (MSRB) has served the public interest by promoting a fair and efficient municipal securities market. Each year we set clear priorities and engage municipal market participants in constructive dialogue about effective ways to achieve those priorities.

In the year ahead, the MSRB is focused on enhancing the integrity of the municipal market by improving pricing for investors and issuers and implementing a regulatory framework for municipal advisors.

Price transparency is essential to fulfilling the MSRB's mission to protect investors, state and local governments and other issuers of municipal bonds. The MSRB's Electronic Municipal Market Access (EMMA[®]) website has brought transparency of the municipal market to new levels by providing free public access to real-time trade prices and other data and disclosure documents. The MSRB is working to enhance EMMA with better usability and still more data, particularly related to pricing. In fiscal year 2014, the MSRB plans to move forward with developing a platform to provide comprehensive, interactive and real-time display of both pre- and post-trade pricing data. This is a gradual process that will

involve extensive opportunities for market feedback on how best to expand public access to additional information about the current state of the municipal market.

Implementing a regulatory framework for municipal advisors is another priority. With the Securities and Exchange Commission's final guidance on the definition of "municipal advisor" released in September 2013, the MSRB will carefully study the guidance and continue its outreach to municipal advisors as it assumes oversight responsibilities. The MSRB will take an incremental approach to rulemaking in light of the SEC's final guidance and seek public comment on all rule proposals. It will also continue to work with the municipal advisory industry to develop a professional qualification exam to establish standards of competency for municipal advisors.

In addition to these top priorities, the MSRB continues to focus on improving regulatory efficiency by streamlining or consolidating MSRB rules and related guidance and aligning the MSRB rule book with the rules of other regulators as appropriate. For example, the MSRB is moving forward with a package of rule proposals to simplify interpretive guidance associated with MSRB Rule

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G-17 on fair dealing by consolidating key principles into stand-alone rules. The MSRB also plans to consolidate the numerous provisions and rules related to registering with the MSRB into a single MSRB registration rule. Importantly, all MSRB rule proposals are informed by a thorough process to assess the costs, benefits and alternatives to proposed rulemaking.

We also remain committed to providing education, outreach and market leadership on a range of municipal market topics. Our online Investor Toolkit and State and Local Government Toolkit are frequently updated with new information and resources. The MSRB is also expanding its use of video to educate investors and issuers about working with financial professionals in the municipal market.

We encourage you to explore the MSRB website to access up-to-date information about the MSRB's priorities in market transparency, rulemaking and education. We welcome your feedback on these priorities, whether through the formal process of responding to requests for comment on potential rules, or through contact forms on the MSRB websites. Input from a wide variety of market stakeholders helps us ensure that our efforts contribute to our goal of a fair and efficient municipal market.

Thank you.


Daniel Heimowitz
Chair


Lynnette Kelly
Executive Director

About the MSRB

The Municipal Securities Rulemaking Board 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.

Board of Directors 2013–2014

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RBC Capital Markets



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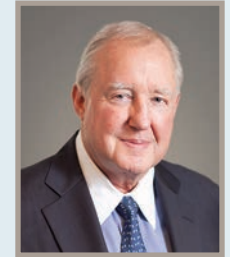
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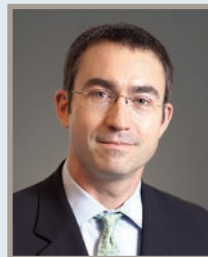
W. Bartley Hildreth
Professor, Andrew Young
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Georgia State University



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Thornburg Investment
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Colleen Woodell
Former Chief Credit Officer
of Global Corporate and
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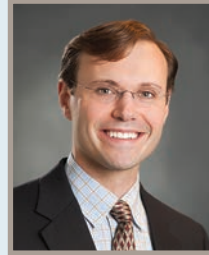
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Marianne F. Edmonds
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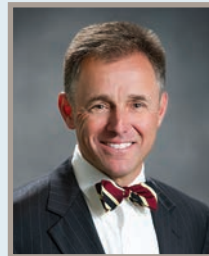
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and Head of the
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Morgan Stanley

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 invited market stakeholders to share their feedback on any aspect of the MSRB's rule book.

Enhancing Regulatory Efficiency

MSRB INITIATED A COMPREHENSIVE RULE BOOK REVIEW TO MODERNIZE AND STREAMLINE ITS RULES

Like every market, the municipal securities market changes and evolves based on the needs and solutions of its participants. As the principal regulator of this market, the MSRB has the responsibility to ensure that its rules reflect current practices and that it is effectively regulating today's market. In late 2012, the MSRB decided to proactively examine its entire rule book and initiated a comprehensive effort to ensure its rules and related interpretations appropriately reflect current market practices and conditions. As part of the review, the MSRB also sought to identify opportunities to streamline or consolidate MSRB rules and interpretations to enhance regulatory efficiency and facilitate compliance.

The MSRB invited market stakeholders to share their feedback on any aspect of the MSRB's rule book, whether commenting on the substance of MSRB rules or providing suggestions to improve the format and presentation of rules on the MSRB's website. The MSRB reviewed all of the comments received, and is engaged in an ongoing process of prioritizing these comments and conducting

internal analysis of opportunities to modernize and simplify the rule book, and to implement changes in support of regulatory efficiency.

Several commenters expressed support for the MSRB's effort to identify areas where its rules could be more closely aligned with the rules of other self-regulatory organizations or government agencies to promote more effective and efficient compliance. An early example of the MSRB's work in this area is the pending proposal before the Securities and Exchange Commission (SEC) to align MSRB and Financial



FISCAL YEAR 2013: ADVANCES IN MUNICIPAL MARKET REGULATION



October 2012

SEC Approves Enhancement to Large Trade Price Transparency

December 2012

SEC Approves Amendments to Streamline New Issue Information Submission Requirements

April 2013

SEC Approves Amendments to Require the Public Disclosure of Additional Information Related to Dealer Contributions to Bond Ballot Campaigns

September 2013

SEC Approves Amendments to MSRB Rules to Include Provisions Specifically Tailored for Retail Order Periods

August 2013

SEC Approves Amendments on Telemarketing

Industry Regulatory Authority (FINRA) provisions on suitability of recommendations that municipal securities dealers make to their customers. MSRB Rule G-19 and interpretations within MSRB Rule G-17 on fair dealing outline the duties of municipal securities dealers to ensure their recommendations to investors are suitable. The MSRB has proposed revising Rule G-19 to align closely with the FINRA suitability rule so that securities dealers do not have separate or inconsistent suitability standards for different products.

In another example of the MSRB's effort to promote regulatory clarity and efficiency, MSRB is planning to consolidate key interpretations

of Rule G-17 into two stand-alone rules on time of trade disclosure and sophisticated municipal market professionals (SMMPs). A stand-alone rule encompassing dealers' existing time of trade disclosure requirements will serve to highlight the importance of disclosure of material information to investors and assist municipal securities dealers with understanding and complying with their obligations. Stand-alone rules for SMMP-related provisions condense existing guidance for municipal securities dealers on their obligations when working with the most experienced investors.

The MSRB is complementing the substantive consolidation effort

with ongoing improvements to the presentation of its rules. Last year, the MSRB adopted a new format for its rules that presents supporting information about a rule and supplementary material immediately following the initial text of the rule. This format aligns with that used by other financial regulators and will be utilized for new rules going forward.

The MSRB continues to welcome input on its rules as part of this ongoing initiative to enhance regulatory efficiency.



In 2013, the MSRB developed free tools and resources for state and local governments on financial disclosure.

Improving Financial Disclosure Practices

MSRB PROVIDES NEW TOOLS AND RESOURCES TO ASSIST STATE AND LOCAL GOVERNMENTS WITH UNDERSTANDING AND COMPLYING WITH THEIR DISCLOSURE OBLIGATIONS

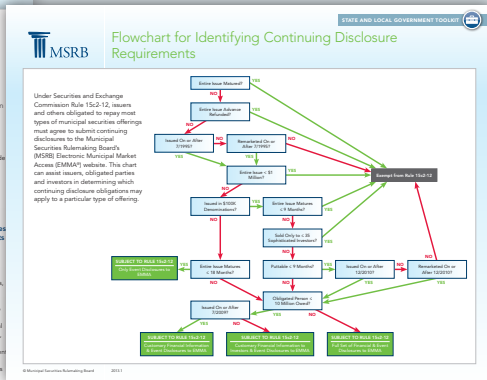
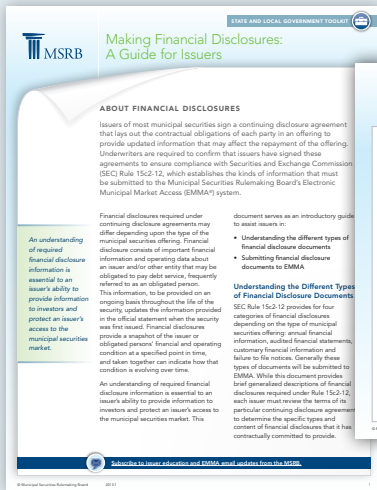
In 2013, state and local governments that issue municipal bonds faced heightened regulatory scrutiny on their practices for disclosing key financial information to investors. A series of enforcement actions by the Securities and Exchange Commission (SEC) emphasized the need for full and timely disclosure, and the consequences for issuers that fail to meet these obligations. To assist issuers in better understanding and complying with their disclosure obligations, the MSRB developed free tools and resources on financial disclosure.

One tool is designed to assist the issuer community with keeping track of deadlines to file financial disclosures to the MSRB's Electronic Municipal Market Access (EMMA[®]) website. Free automated emails from EMMA remind issuer staff and others responsible for filing disclosures when their annual or quarterly due dates

are approaching. This simple tool helps promote the timely availability of complete financial information that investors rely on to make informed decisions.

The MSRB published a market advisory and series of educational resources to enhance understanding among issuers of their disclosure obligations, which are established by SEC Rule 15c2-12 and the anti-fraud provisions of the federal securities laws, and are documented in issuers' continuing disclosure agreements.

The MSRB's market advisory, which was published in August 2013, clarifies the types of information issuers must publicly disclose for various types of municipal securities. The advisory also highlights the role of EMMA as the central repository for continuing disclosures on municipal bonds and the benefits of timely and complete disclosures for issuers and investors alike.



MSRB SPECIAL STATISTICAL REPORT: TIMING OF ANNUAL FINANCIAL DISCLOSURES



As part of its focus on municipal market disclosure practices, the MSRB in 2013 published a special report that documents for the first time statistics on the average time after the end of a fiscal year it takes issuers of municipal securities and other obligated persons to make certain financial information available to the public on the EMMA website.

The timeframe for issuers to make annual financial information available is set forth in continuing disclosure agreements and is the responsibility of the issuer.

The MSRB analyzed submissions of financial disclosures made to EMMA between January 2010 and June 2013 and measured the number of days after the end of a fiscal year that audited financial statements and annual financial information were made available. The MSRB's report provides objective, factual information about the timing of the public availability of financial information and is consistent with the MSRB's practice of providing municipal market statistics and related reports as part of its mission to promote a fair and efficient municipal securities market. Read the full report for more information on the methodology used. Access the report and other periodic statistical reports at msrb.org/Market-Disclosures-and-Data/Market-Statistics/Periodic-Statistical-Reports.

Highlights of the MSRB Disclosure Timing Report

Yearly Average Number of Days Between Document Receipt Date and End of Fiscal Year for Submissions Made within One Year of Fiscal Year End

	2010	2011	2012	2013*
Audited Financial	202	202	200	204
Annual Financial	187	185	188	194

* January 2013 through June 2013

The MSRB's free educational resources on financial disclosure include:

- » *Making Financial Disclosures: A Guide for Issuers* that describes the different types of financial disclosure documents and provides help with submitting financial disclosure documents to EMMA;
- » A companion guide, *The Conduit Issuer's Guide to Continuing Disclosures*, that provides information for state or local governments issuing municipal securities on behalf of private entities through a conduit financing;
- » A document on *Protecting Market Access* that explains the importance of timely, accurate and complete disclosure of financial information and provides tips on supporting good disclosure; and

» A checklist to help issuers prepare to submit disclosures to the EMMA website.

In 2013, the MSRB also made available on its website a list of third-party organizations that provide guidance to issuers on preparing continuing disclosure documents, as well as fact sheets and tutorials related to disclosure submission and the email reminder tool.

The MSRB also produced *The Investor's Guide to Financial Disclosures* to explain the various types of financial disclosures and how investors can use EMMA to locate these documents.

All of the MSRB's free disclosure resources are available in the MSRB's online toolkits. The Investor Toolkit provides information for investors in municipal securities. The State and Local Government Toolkit includes tools and resources for issuers.

In 2013, the MSRB continued work on its long-term plan to enhance market transparency by increasing the amount of data available on EMMA.

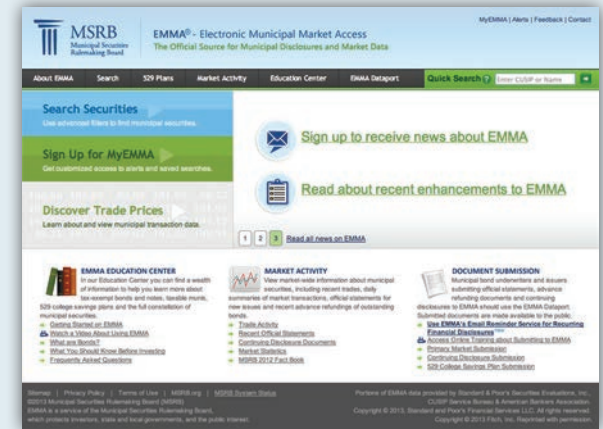
EMMA's Progress Report

Among the MSRB's essential contributions to the integrity and efficiency of the municipal securities market is the Electronic Municipal Market Access (EMMA®) website. EMMA provides free public access to trade data and disclosure information on virtually all municipal securities. In 2013, the MSRB continued work on its long-range plan to enhance market transparency by increasing the amount of data available on EMMA and improving the usability of the website. The MSRB has made significant progress toward this long-term vision, first articulated in January 2012, of more data and better usability on EMMA.

More Data

The EMMA website displays trade prices, interest rates on variable rate debt, credit ratings and a variety of other information of value to municipal securities investors, issuers and other market participants. The MSRB continually seeks opportunities to make additional data and information available to the public on EMMA. Since the publication of its long-range plan for EMMA, the MSRB has:

- » Enhanced the EMMA Market Statistics page to include monthly data on new issuance volume;



- » Begun to display both the initial offering dollar price and yield for a bond as well as the time of formal award and time of first execution for most new issues of municipal securities;
- » Added access on EMMA to municipal securities dealers' disclosures of political contributions and expanded disclosures concerning dealer contributions to bond ballot campaigns;
- » Begun to display in real-time on EMMA par value on all transactions of \$5 million or less to provide more complete and timely information about municipal securities trades;
- » Required municipal securities dealers to report the contractual dollar price at which inter-dealer transactions were executed and added yield to this information; and
- » Conformed bid-to-cover ratios for auction rate securities to a calculation that is more consistent with Treasury auction results.

Improved Usability

The MSRB is also focused on improving the usability of EMMA to ensure visitors to the website can quickly and easily locate the information they need to make more informed decisions in the municipal marketplace. To date, the MSRB has:

- » Developed a free email reminder service to notify municipal securities issuers in advance of their filing deadlines for financial disclosures to help ensure users have the most current information;
- » Enhanced the search functionality on EMMA to allow users to search by a combination of descriptive characteristics of municipal securities as well as trade data and disclosures;
- » Added alerts for the posting of new disclosures related to 529 college savings plans;
- » Facilitated monitoring of securities or a market segment by enabling specific securities to be saved in groups and searches to be conducted on those securities, and added the ability to save frequently used sets of search criteria;
- » Introduced a limited pilot “issuer homepage” that would provide a new means for navigating on

EMMA to find issuers and data and disclosures about their bonds, as well as enabling issuers to improve communication with investors through EMMA; and

- » Introduced MyEMMA, which provides customized access to municipal securities information by allowing users to set up alerts to be notified when new information on a particular security or group of securities becomes available on EMMA.

Future of Price Discovery Tools on EMMA®

The MSRB’s work to implement its long-term vision for EMMA with more data and better usability aligns with many of the recommendations of the Securities and Exchange Commission’s 2012 report on the municipal securities market. Both the SEC report and the MSRB’s long-range plan for market transparency identified a need to improve access to municipal securities pricing information for average investors. The MSRB plans to gradually develop a platform integrated with EMMA to provide comprehensive, interactive and real-time display of pricing-related market data.

Through a series of requests for public input on various elements relating to the development of

MSRB RELEASES SERIES OF EDUCATIONAL VIDEOS ON THE MUNICIPAL MARKET



The MSRB continued in 2013 to expand its library of educational content with new multimedia resources, including a series of videos geared toward municipal bond investors and state and local governments. The MSRB recognizes the need to communicate

to municipal market stakeholders in a variety of formats and was recognized by the Society for New Communications Research with a 2013 Award of Excellence for its educational videos. The videos explain in a simple way how the municipal market works and the MSRB’s role in this \$3.7 trillion market. A three-part series of investor education videos on “What to Expect from Your Broker” focuses on the key obligations of brokers when engaging in municipal securities transactions. Another video especially for first-time users of the MSRB’s EMMA website explains how investors can use EMMA to learn about the municipal market, evaluate municipal bond features, risks and prices, and monitor the health of their municipal bond investments over time. The videos and all of the MSRB free educational resources are available on the MSRB’s website.

a central transparency platform, the MSRB continues to gather information on the approach that makes sense for the municipal market. Topics that have been posed for consideration include:

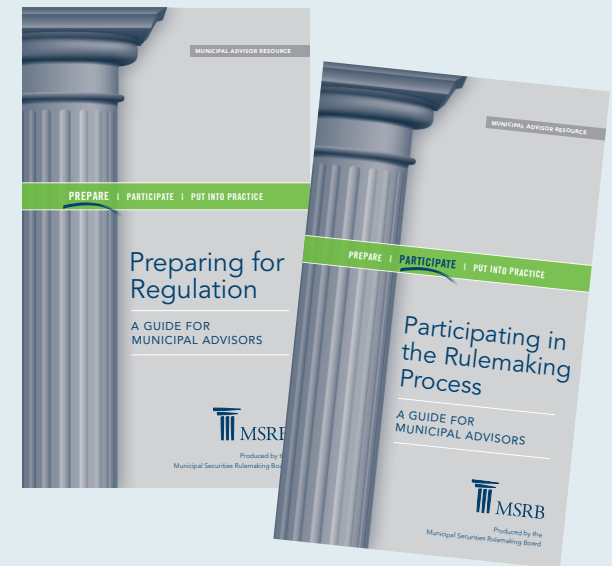
- » The appropriate standard for “real time” reporting and public dissemination of municipal pricing data and related information;
- » Potentially adding information to trade reporting requirements that would provide greater details of the transaction and improve the usefulness of the data; and
- » Evaluating potential standards for collection and dissemination of pre-trade pricing information, including bids and offers.

The MSRB will focus first on municipal advisors' duties and standards of conduct.

Look Ahead: Municipal Advisor Regulation

In the year ahead, the MSRB is focused on implementing a regulatory framework for municipal advisors as part of its expanded mission under the Dodd-Frank Wall Street Reform and Consumer Protection Act to protect state and local governments and others that engage the services of municipal advisors. In September 2013, the Securities and Exchange Commission (SEC) adopted a final registration rule for municipal advisors. The MSRB is now moving forward with establishing priorities for a comprehensive regulatory framework for municipal advisors that includes rules, professional qualification standards and education.

The MSRB has prioritized development of five rules for municipal advisors aimed at protecting municipal entities and investors. They are: fiduciary duty and fair dealing standards of conduct of municipal advisors to municipal entities and obligated persons; supervision requirements for municipal advisory firms and their employees; rules to address the potential for pay-to-play activities by municipal advisors; limitations on gifts and gratuities to employees of municipal securities issuers and other market participants; and duties of solicitors.



The MSRB's first area of focus is the development of a proposed rule that will provide guidance on the statutory fiduciary duty owed by municipal advisors to municipal entities and the duty of fair dealing owed by municipal advisors to municipal entities and obligated persons. As with all its proposed rules, the MSRB's proposed rules for

Senior Leadership



In 2014, the MSRB is committed to providing extensive education and outreach to municipal advisors to help them prepare for regulatory oversight, participate in the rulemaking process and ultimately put the final rules into

practice. The MSRB also is educating other market stakeholders and the public about the role of municipal advisors and the potential effects of the new regulations.

municipal advisors will be subject to the MSRB's economic analysis policy. The policy is designed to help the SEC meet its statutory obligation to consider whether approval of a proposed MSRB rule will promote efficiency, competition and capital formation.

The MSRB will continue to work with municipal advisors and others to develop a professional qualification exam to establish standards of competency for municipal advisors.

Throughout the implementation process, the MSRB will reach out to municipal advisors and other market participants for their input. The MSRB is also offering extensive education and outreach to municipal advisors to help them prepare for regulatory oversight, participate in the rulemaking process and ultimately put the final rules into practice. The MSRB is providing educational publications, webinars and coordinating events to engage with the municipal advisory community and other market participants affected by municipal advisor regulation.



Lynnette Kelly
Executive Director



Ernesto A. Lanza
Deputy Executive Director



Gary L. Goldsholle
General Counsel



Elizabeth Wolfe
*Chief Financial Officer and
Chief Risk Officer*



Al Morisato
*Chief Operations and
Technology Officer*



Ritta McLaughlin
Chief Education Officer



Jennifer A. Galloway
Chief Communications Officer

MSRB 2013 Financial Highlights

The MSRB's mission requires that the organization have stable, sufficient funding to ensure a fair and efficient municipal market through effective rulemaking, market transparency, and a robust and reliable technical infrastructure. Adequate reserves allow the organization to operate without interruption, regardless of market conditions and the level of underwriting and transaction activity. The MSRB carefully manages expenditures as part of stewardship of its revenues and reserves. Financial highlights from Fiscal Year 2013 are provided here. Full audited financial statements are available on the MSRB's website at www.msrb.org/Publications/Annual-Reports.

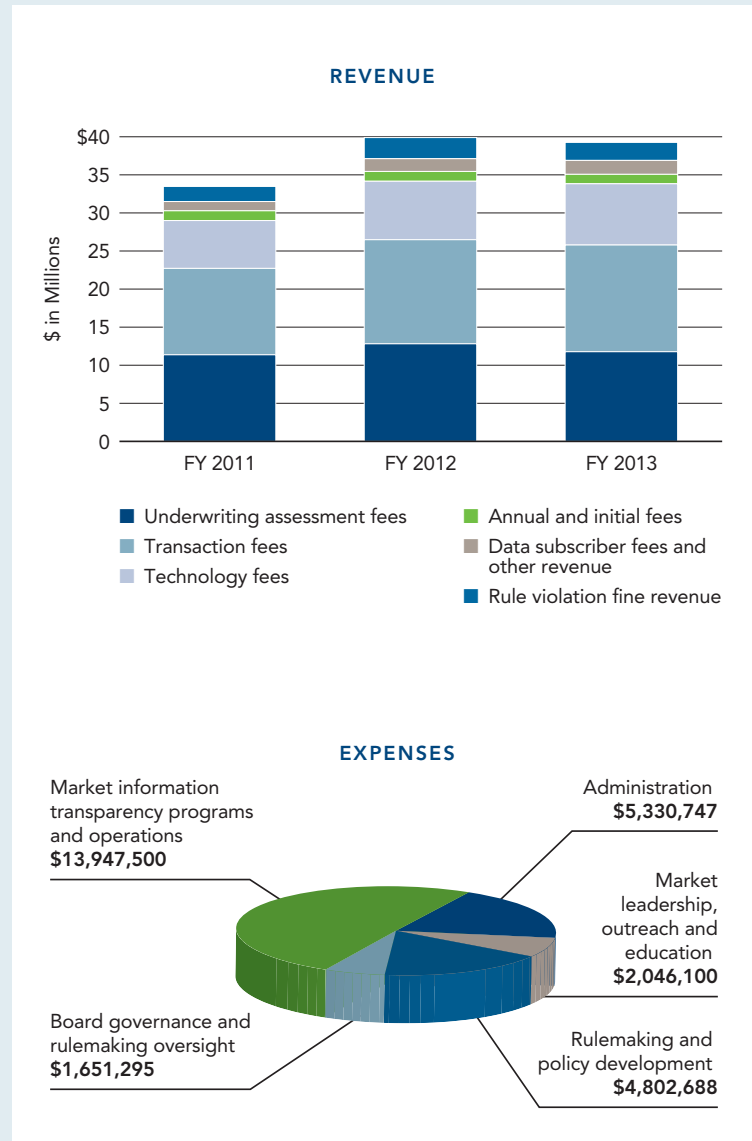
Revenue

The MSRB's FY 2013 revenues reflect diversification of revenue sources, consistent with the MSRB's goal of balanced and equitable financial support. The MSRB is working to establish appropriate and equitable assessments on municipal advisors to fairly distribute assessments across all regulated entities and ensure adequate funding of the MSRB.

FY 2013 revenue is derived primarily from new bond underwriting and trading activity, and totaled \$39.3 million, a 2 percent decrease from FY 2012. A technology fee provides for the ongoing maintenance, updating and replacement of aging MSRB technology systems, including the EMMA® website and its technical infrastructure. An additional source of revenue is enforcement agency fines for violations of MSRB rules.

Expenses

In FY 2013, operating expenses totaled \$27.8 million, up 3.5 percent from FY 2012. These expense categories reflect the organization's core mission, including rulemaking and policy development, board governance and rulemaking oversight, market information transparency programs and operations, and market leadership, outreach and education.



2013 FINANCIAL HIGHLIGHTS

<i>September 30,</i>	2013	2012	2011
Statements of Financial Position			
Total Assets	\$60,813,189	\$50,041,243	\$36,651,410
Total Liabilities	2,933,965	3,646,681	3,312,474
Total Net Assets — Unrestricted	57,879,224	46,394,562	33,338,936
Statements of Activities			
Revenue:			
Underwriting assessment fees	11,772,429	12,812,254	11,368,394
Transaction fees	14,012,929	13,667,607	11,348,228
Technology fees	8,042,898	7,681,655	6,280,060
Annual and initial fees	1,239,300	1,284,408	1,281,200
Data subscriber fees and other revenue	1,831,338	1,674,679	1,217,774
Rule violation fine revenue	2,364,098	2,771,735	1,983,833
Total Revenue	39,262,992	39,892,338	33,479,489
Expenses	27,778,330	26,836,712	26,075,879
Change in Net Assets	\$11,484,662	\$13,055,626	\$7,403,610
Statements of Cash Flows			
Cash Provided from Operating Activities	\$16,012,320	\$15,963,436	\$8,572,169
Investment in Technology Systems and Other Fixed Assets	\$3,489,806	\$3,077,524	\$4,236,002

These highlights are supported by the audited financial statements, which are available on the MSRB's website at www.msrb.org/Publications/Annual-Reports.



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