

2003). Below is the text of the proposed rule change. Proposed new language is italicized, deletions are in brackets.

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#### *Rule A-14: Annual Fee*

In addition to any other fees prescribed by the rules of the Board, each broker, dealer and municipal securities dealer shall pay an annual fee to the Board of [\$200] *\$300*, with respect to each fiscal year of the Board in which the broker, dealer or municipal securities dealer conducts municipal securities activities. Such fee must be received at the office of the Board no later than October 31 of the fiscal year for which the fee is paid, accompanied by the invoice sent to the broker, dealer or municipal securities dealer by the Board, or a written statement setting forth the name, address and Commission registration number of the broker, dealer or municipal securities dealer on whose behalf the fee is paid.

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## **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

### *A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

#### 1. Purpose

The purpose of the proposed rule change is to help provide sufficient revenues to fund Board operations and to allocate fees among dealers in a manner that, compared to the current fee structure, more accurately reflects each dealer's involvement in the municipal securities market. The proposed rule change would accomplish these purposes by amending Rule A-14 to increase the annual fee assessed to dealers from \$200 to \$300 per dealer.

The MSRB currently levies three types of fees that are generally applicable to dealers. Rule A-12 provides for a \$100 initial fee paid once by a dealer when it enters the municipal securities business. Rule A-13 provides for an underwriting fee of \$.03 per \$1000 par value of bonds and \$.01 per

\$1000 par value of notes, and a transaction fee of \$.005 per \$1000 par value. Rule A-14 provides for an annual fee of \$200 from each dealer who conducts municipal securities activities. The annual fee imposed by Rule A-14 was last increased from \$100 to \$200 in 1996.

The MSRB has reviewed its revenue structure on a number of occasions in the past to ensure that the fee structure reflects a firm's activity within the industry. The MSRB believes that its fees are not levied for a single purpose but for general purposes, since MSRB regulatory activities affect all participants in the dealer community. Over the last six years, the proportion of MSRB revenues derived from the underwriting assessment and the transaction fee has grown dramatically while the proportion from the annual fee has declined. A number of dealers that do not participate in traditional municipal securities underwriting activities or are not actively involved in the trading of traditional municipal securities effectively only pay a small annual fee of \$200 to the MSRB. For example, firms that primarily effect transactions in a new product, municipal fund securities, only pay the annual fee because such transactions are exempt from underwriting and transaction fees. The MSRB believes that these firms should pay a higher proportion of the regulatory fees.

To redress this imbalance, the MSRB has determined to raise the annual fee from \$200 to \$300. We anticipate that the proposed rule change will result in an increase of \$250,000 to the MSRB's revenues in fiscal year 2004. The proposed rule change will enhance the equitable distribution of fees among dealers in the municipal securities market and increase the MSRB's revenue to accommodate the increased costs associated with regulating municipal fund securities activities.

#### 2. Basis

The Board has adopted the proposed rule change pursuant to section 15B(b)(2)(j) of the Act, which requires, in pertinent part, that the Board's rules shall:

Provide that each municipal securities broker and each municipal securities dealer shall pay to the Board such reasonable fees and charges as may be necessary or appropriate to defray the costs and expenses of operating and administering the Board. Such rules shall specify the amount of such fees and charges.

The proposed rule change provides for reasonable fees, based on dealer involvement in the municipal securities

market that are necessary to defray Board expenses.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Board does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, since it would apply equally to all brokers, dealers and municipal securities dealers.

### *C. Self-Regulatory Organization's Statement on Comments Received on the Proposed Rule Change by Members, Participants, or Others*

Written comments were neither solicited nor received.

## **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

## **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submissions, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing will also be available for inspection and copying at the Board's principal offices. All submissions should refer to File No. SR-MSRB-2003-06 and should be submitted by August 5, 2003.