

GASB Accounting Support Fee

SEC Approves Rule to Establish an Accounting Support Fee to Fund the Governmental Accounting Standards Board

Effective Date: February 23, 2012

Executive Summary

Pursuant to an SEC order, FINRA has established an accounting support fee (GASB Accounting Support Fee) to adequately fund the annual budget of the Governmental Accounting Standards Board (GASB). For 2012, FINRA will assess and collect a total of \$8,451,300 for the GASB Accounting Support Fee by collecting \$2,112,825 from its member firms each calendar quarter. The GASB Accounting Support Fee will be collected quarterly from member firms that report trades to the Municipal Securities Rulemaking Board (MSRB). Each member firm's assessment will be based on the member firm's portion of the total par value of municipal securities transactions reported by FINRA member firms to the MSRB during the previous quarter. FINRA will send the first invoices for the GASB Accounting Support Fee in April. The first invoice will be based on trading activity during the first quarter of 2012.

Questions concerning this *Notice* should be directed to:

- ▶ Finance Department, at (240) 386-5313; or
- ▶ Office of General Counsel, at (202) 728-8071.

Background & Discussion

On May 11, 2011, the SEC issued an order under Section 19(g) of the Securities Act of 1933 (Securities Act) requiring FINRA to establish (i) a reasonable annual accounting support fee to adequately fund the annual budget of the GASB; and (ii) rules and procedures, in consultation with the principal organizations representing state governors, legislators, local elected officials, and state and local finance officers, to provide for the equitable allocation, assessment and collection of the fee from its members, and the remittance of all such accounting support fees to the Financial Accounting Foundation

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Notice Type

- ▶ New Rule

Suggested Routing

- ▶ Compliance
- ▶ Finance
- ▶ Government Securities
- ▶ Institutional
- ▶ Legal
- ▶ Municipal
- ▶ Operations
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ Financial Accounting Foundation
- ▶ GASB Accounting Support Fee
- ▶ Governmental Accounting Standards Board
- ▶ Municipal Securities Transactions

Referenced Rules & Notices

- ▶ Dodd-Frank Act Section 978
- ▶ FINRA By-Laws, Schedule A
- ▶ MSRB Rule G-14(b)
- ▶ Regulatory Notice 11-28
- ▶ Securities Act Section 19(g)

(FAF).¹ In response to the SEC's order, FINRA proposed Section 14 (Accounting Support Fee for Governmental Accounting Standards Board) to Schedule A of the FINRA By-Laws to establish the GASB Accounting Support Fee, and the SEC approved the proposal on February 23, 2012.²

Under Section 14, the GASB Accounting Support Fee is assessed quarterly based on member firms' municipal securities trading volume reported to the MSRB during the previous calendar quarter. Each member firm's assessment will be based on the member firm's portion of the total par value of municipal securities transactions reported by FINRA member firms to the MSRB during the previous quarter. To exclude firms with *de minimis* transactions in municipal securities in a given quarter from being assessed the fee, members with a quarterly assessment of less than \$25 will not be charged the fee for that quarter, and any amounts originally assessed to those firms will be reallocated among the firms with an assessment that quarter of \$25 or more. In addition, firms that do not engage in reportable municipal securities transactions during a particular calendar quarter will not be subject to the GASB Accounting Support Fee for that quarter. To collect the GASB Accounting Support Fee, FINRA will invoice member firms four times each year (in January, April, July and October). FINRA will send the first invoices for the GASB Accounting Support Fee in April. The invoice will be based on trading activity during the first quarter of 2012.

For 2012, GASB's recoverable annual budgeted expenses for purposes of the GASB Accounting Support Fee is \$8,451,300;³ therefore, FINRA will collect \$2,112,825 from its members each quarter.⁴ FINRA will send invoices to member firms for the 2012 GASB Accounting Support Fee in April, July, October and January 2013. Each member firm's fee will be based on the member firm's proportion of municipal securities transactions (based on the par value of reported transactions, not their price) reported by all FINRA members to the MSRB in the previous calendar quarter. Thus, for example, if a member firm reported transactions to the MSRB in the first quarter of 2012 that accounted for 10 percent of the total par value amount of transactions reported by all FINRA member firms during the quarter, the member firm's assessment would be 10 percent of one quarter of GASB's annual budget (*i.e.*, the member's base quarterly assessment, before accounting for any member firms subject to the \$25 exemption, would be \$211,282.50, or 10 percent of \$2,112,825).

As FINRA noted in [Regulatory Notice 11-28](#), because some firms may seek to pass the GASB Accounting Support Fee onto customers engaged in municipal securities transactions, FINRA will set out an estimated fee rate (per \$1,000 par value) based on the GASB recoverable annual budgeted expenses reported to FINRA for that year and historical municipal security trade reporting volumes so that firms will have some basis on which to establish a fee should they choose to do so. Based on reported municipal trading activity by FINRA member firms in 2011 and the 2012 GASB budget, FINRA estimates that the GASB Accounting Support Fee for 2012 will be between \$0.0027 and \$0.0030 per \$1,000 par value. To the extent any member firms are excluded from the fee in a given quarter, those member firms with assessments of \$25 or more will pay a slightly higher rate.

Member firms are reminded that, should they choose to pass along the fee, they must ensure that the fee is properly disclosed, including, if applicable, the fact that the fee is an estimate and that the firm ultimately may pay more or less than the fee charged to the customer. In addition, any disclosure used by a member firm cannot be misleading and must conform to FINRA rules, including just and equitable principles of trade, as well as any applicable MSRB rules.

Endnotes

1. Securities Exchange Act Release No. 64462 (May 11, 2011), 76 FR 28247 (May 16, 2011). Section 19(g) of the Securities Act, as added by Section 978 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), gave the SEC the authority to require a national securities association to establish a reasonable annual accounting support fee to adequately fund the annual budget of the GASB and to draft the rules and procedures necessary to equitably assess the fee on the association's members. *See* 15 U.S.C. 77s(g); Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).
2. *See* Securities Exchange Act Release No. 66454 (February 23, 2012), 77 FR 12340 (February 29, 2012); *see also* [Regulatory Notice 11-28](#) (June 2011). In accordance with Section 19(g)(5)(B) of the Securities Act, collection of the GASB Accounting Support Fee shall not be construed to provide the SEC or FINRA direct or indirect oversight of the budget or technical agenda of the GASB or to affect the setting of generally accepted accounting principles by the GASB. *See* 15 U.S.C. 77s(g)(5)(B).
3. For purposes of the GASB Accounting Support Fee, the annual budget of the GASB is the annual budget reviewed and approved according to the internal procedures of the FAF. *See* 15 U.S.C. 77s(g)(2). GASB's 2012 budget includes an administrative fee to FINRA of \$50,000 that is intended to cover FINRA's costs associated with calculating, assessing and collecting the GASB Accounting Support Fee. The amount of the administrative fee will be reviewed and evaluated each year by FINRA and the FAF in light of FINRA's experience in assessing and collecting the GASB Accounting Support Fee and the actual costs incurred by FINRA.
4. As required by Section 19(g) of the Securities Act, any GASB Accounting Support Fees collected by FINRA will be remitted to the FAF and used to support the efforts of the GASB to establish standards of financial accounting and reporting applicable to state and local governments. *See* 15 U.S.C. 77s(g)(1), (3). Section 19(g)(4) of the Securities Act prohibits FINRA from collecting GASB Accounting Support Fees for a fiscal year in excess of GASB's recoverable annual budgeted expenses. *See* 15 U.S.C. 77s(g)(4).

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