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U.S. Muni Bond Trading Stable Despite Dealer Drop - Study

CHICAGO, June 19 (Reuters) – U.S. municipal bond market trading has been relatively stable over the last 11 years despite a drop in the number of dealers and the amount of the debt kept in dealers' inventories, the Municipal Securities Rulemaking Board (MSRB) said on Tuesday.

The self-regulator of the \$3.8 trillion market where states, cities, schools, hospitals and other issuers sell debt said its first-ever report analyzing changes and trends in dealers' customer trading activity found dealer participation became less-concentrated, but still "robust."

The number of registered municipal securities dealers fell to 1,346 last year from 1,967 in 2009, while muni bonds held by dealers dropped by about 67 percent since 2006, according to the report.

"Our analysis shows that most dealers that have exited the market provided little liquidity and participated in very few trades – typically fewer than 10 trades in a year," said MSRB Director of Research Marcelo Vieira in a statement.

Meanwhile, the number of dealers executing more than 10,000 trades annually increased to 69 in 2017 from 56 in 2006.

The report also found that the top five dealers' market share has decreased, falling to 34.6 percent of all customer trades in 2017 from 42.2 percent in 2006.

At around 50,000 issuers, the fragmented muni market has five times more debt issuers than the corporate bond market and 33 times more individual securities at around 1 million, according to the MSRB. There were nearly 39,000 muni bond trades daily on average from 2006 to 2017, with an average total trading value of about \$14 billion a day.

About 45 percent of all muni trades during that time period were dealer sales to customers, with dealer purchases from customers accounting for 22 percent.

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