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MSRB Finds Structural Shifts Amid Declining Dealer Participation: Norton Rose Fulbright

In a new report, the MSRB concluded that the decline in the number of municipal securities dealers since 2016 has not resulted in materially increased market concentration, but instead reflects changes in trading structure and activity.

In its report, the MSRB found a decline in the total number of participating dealers executing customer trades in the municipal market. The MSRB said this contraction was driven primarily by the exit of firms with minimal trading activity, rather than the departure of major liquidity providers. The MSRB stated that the remaining dealers "have become much more active," with the proportion of dealers handling significant trading volume—both in terms of trade count and total par amount—increasing substantially over the past decade.

The MSRB found that dealer concentration by par amount traded has become slightly less concentrated among the largest dealers in recent years, returning to near 2016 levels after peaking in 2020. The MSRB said this shift reflects a change in the composition of trading activity, as par volume increasingly moved away from block-size trades toward smaller trade sizes driven by retail investors, separately managed accounts, and exchange-traded funds. The MSRB noted that the market share left by Citigroup's early 2024 exit from the municipal securities business was absorbed by a broad range of dealers, including smaller firms, rather than being captured exclusively by the largest participants.

The MSRB also found that dealer concentration based on the number of trades executed followed an opposite pattern, experiencing a steady increase since 2020. The MSRB said this increased concentration in trade execution coincides with broader market developments, including: (i) a significantly larger presence of alternative trading systems, which accounted for 21 percent of all customer trades in 2025; (ii) elevated odd-lot trading activity; and (iii) the continued electronification of the municipal securities market.

Norton Rose Fulbright US LLP

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