



Municipal Securities Rulemaking Board

Customer Trading with Alternative Trading Systems

Figure 2. Customer Transactions Executed with ATs, 2015–June 2022

Year	Trades		Par Amount (\$ Mil)	
	Total	Daily Averages	Total	Daily Averages
2015	161,436	666	\$10,958.2	\$43.8
2016	190,939	764	\$12,621.8	\$50.5
2017	351,433	1,400	\$19,645.7	\$78.3
2018	441,449	1,773	\$23,700.4	\$95.2
2019	389,775	1,559	\$21,005.3	\$84.0
2020	422,625	1,677	\$22,362.3	\$88.7
2021	505,779	2,007	\$21,996.1	\$87.3
2022 1H	442,730	3,570	\$22,814.9	\$184.0

AUGUST 2022

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Figure 3. Percentage of Customer Transactions Executed with ATs Compared to Total Customer Trades, 2015–June 2022

Year	Percentage of Customer Transactions Executed with ATs
2015	7.4%
2016	7.7%
2017	8.4%
2018	10.7%
2019	12.4%
2020	12.4%
2021	12.4%
2022 1H	12.4%

See "2022 Mid-Year Market Update,"

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Introduction¹

Since July 2016, dealers have been required to flag inter-dealer trades that are executed over an Alternative Trading System (ATS). This flag has enabled the MSRB and other market participants to easily identify inter-dealer trades executed on an ATS. Previous MSRB research has shown the importance of ATSS in the inter-dealer market, especially for smaller size trades.² Through June 2022, 55% of the number of inter-dealer trades were executed on an ATS. Although ATSS have maintained their prevalence, recently their market share has remained flat relative to all inter-dealer trades reported.

In analyzing MSRB trade data, the authors noticed a significant and relatively steady increase in customer transactions with ATSS and a dramatic increase in the first half of 2022.³ This paper examines trends in customer trades with ATSS and compares these trends to overall market trading and overall customer trading.

¹ The views expressed in this research paper are those of the authors and do not necessarily reflect the views and positions of the MSRB.

² See "[Inter-Dealer Municipal Trading](#)," Municipal Securities Rulemaking Board, June 2021.

³ These customer transactions are not executed or reported as an ATS transaction.

Background on ATSS

As mentioned in previous MSRB research, electronic trading has become significantly more prevalent in the municipal bond market, especially for smaller size trades. As mentioned earlier, currently, more than half of all inter-dealer trades in municipal securities are conducted via an ATS platform. An ATS is an electronic trading system that is not regulated as an exchange⁴ but is instead a venue for matching the buy and sell orders of its participants. The two main functions of an electronic trading venue such as an ATS platform are: 1) posting (live quotes) and soliciting price quotes (request for quotes) electronically; and 2) electronic execution of a trade against posted or responding quotes. In addition, ATS platforms also provide front-end display with an aggregation of trading interests for subscribers and offer anonymity to participants that post quotes on their systems.⁵ ATSS aggregate liquidity and make accessing this liquidity efficient and easy. The MSRB research report [Use of Internal and External Liquidity in the Municipal Market](#) shows that dealers are using external liquidity, often available through an ATS, much more frequently for smaller size trades.⁶

Methodology

This report is based on transaction data and related descriptive data for calendar years 2017 through June 2022. The data set consists of approximately 2.9 million ATS trades as submitted to the MSRB's Real-Time Transaction Reporting System (RTRS).

Unless noted in the report, trades of variable rate securities and municipal commercial paper are excluded. Additionally, this research report focuses on two key areas:

- Inter-dealer transactions executed with or using the services of an ATS as required to be reported to RTRS with the appropriate ATS indicator; and
- Customer trades executed with ATSS as identified by the Securities Exchange Commission (SEC) not executed or reported as an ATS transaction.⁷

⁴ An ATS meets the definition of "exchange" under the Securities Exchange Act of 1934 ("Exchange Act") but is not required to register with the SEC as an exchange if it operates in compliance with Regulation ATS. See Exchange Act Rule 3a1-1(a).

⁵ See "[Characteristics of Municipal Securities Trading on Alternative Trading Systems and Broker's Broker Platforms](#)," Municipal Securities Rulemaking Board, August 2021.

⁶ See "[Use of Internal and External Liquidity in the Municipal Market](#)," Municipal Securities Rulemaking Board, November 2021.

⁷ [SEC's Alternative Trading System List](#).

ATS Customer Trading

Although there are a few different business models for firms registered as an ATS, ATS trading activity in municipal bonds has primarily been associated with facilitating trades, especially trades of \$100,000 or less, between two dealers often to provide liquidity for individual investors. However, as Figure 1 shows, the number of inter-dealer trades executed on an ATS platform compared to all inter-dealer trades has remained steady for the past four years and has actually declined from 59% in 2017 to 55% in 2020, 2021 and the first half of 2022. Similarly, the par amount of municipal bonds traded on ATSs has held steady at approximately 30% of all inter-dealer par amount traded.

Figure 1. Percentage of Inter-Dealer Trades Executed on ATS



However, ATSs have continued to increase their importance in the municipal bond market by significantly increasing their transactions with institutional customers, including municipal bond Separately Managed Accounts (SMAs), which are portfolios managed on behalf of investors by professional asset management firms. In fact, ATS transactions with institutional customers have grown dramatically, especially in the first half of 2022. Transactions with institutional customers have become a significant part of the overall municipal bond trading volume for ATSs. Figure 2 shows that the number of transactions with a dealer of an ATS has grown from 161,000 in 2015 to 505,000 in 2021 and 443,000 in the first six months of 2022. The average daily number of trades has risen from 650 in 2015 to 3,600 thus far in 2022, an increase of more than 550%, and has grown more than 75% in 2022 alone. Average daily par amount traded has increased more than 400% since 2015 and more than doubled in 2022 compared to 2021.

Figure 2. Customer Transactions Executed with ATs, 2015–June 2022

	Trades		Par Amount (\$ Mil)	
	Total	Daily Averages	Total	Daily Averages
2015	161,436	646	\$10,958.2	\$43.8
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In the MSRB's [2022 Mid-Year Market Update](#),⁸ it was noted that trading volume, especially in the number of trades in the second quarter, was dramatically higher than in previous years. In fact, May of 2022 set a record for the number of trades reported to the MSRB in a month, and April, May and June had more than one million trades reported each month, an occurrence that happened only eight times between 2007 and 2021. In order to contextualize the growth in customer trading with the overall growth in the market in 2022, we compared customer transactions with ATs to all customer transactions. As Figure 3 shows, the number of customer trades with an ATS has grown dramatically, from 2.9% of all customer trades in 2015 to 12.4% in 2022. Since ATS trades are predominantly trades less than \$100,000, it is not surprising that although the percentage of customer trades with an ATS has grown significantly, the par amount traded has not grown as quickly. In fact, the par amount of customer trades with the ATS has grown from 1% in 2015 to 2.3% in 2022.

Figure 3. Percentage of Customer Transactions Executed with ATs Compared to All Customer Trades, 2015–June 2022

	Number of Trades	Par Amount Traded
2015	2.9%	1.0%
2016	3.5%	1.0%
2017	6.1%	1.5%
2018	7.4%	1.8%
2019	7.7%	1.6%
2020	8.4%	1.4%
2021	10.7%	1.7%
2022 1H	12.4%	2.3%

⁸ See "[2022 Mid-Year Market Update](#)," Municipal Securities Rulemaking Board, July 2022.

ATs have been involved with more than 50% of the inter-dealer trades since the MSRB began collecting this information in 2016. Now, in addition to their prevalence in the inter-dealer space, in 2022, almost one in every eight customer trades occurred with an ATs.

Conclusion

ATs have long been established as an important component in the municipal bond market for smaller trade sizes. They have made accessing and executing with other dealers easy for individual investors and the dealer's trading desk. Recently ATs have seen a dramatic increase in the number of customer trades on an actual and relative basis, much of this increase likely due to municipal bond SMAs. Market participants have reported significant growth in SMA assets under management despite the overall decline in municipal bond holdings by individual investors.⁹ ATs are involved in the majority of the inter-dealer trades in the market, and they have substantially increased their presence in the number of trades with customers on an actual and relative basis to once again increase their scope and presence in the municipal bond market.

⁹ See "The Rise of Municipal Separately Managed Accounts—2021 Updated" Cumberland Advisors, November 2, 2021.

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ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country. The MSRB fulfills this mission by creating trust in our market through informed regulation of dealers and municipal advisors that protects investors, issuers and the public interest; building technology systems that power our market and provide transparency for issuers, institutions, and the investing public; and serving as the steward of market data that empowers better decisions and fuels innovation for the future. The MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.



CORPORATE OFFICE
Municipal Securities
Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005
202-838-1500

MSRB SUPPORT
202-838-1330
MSRBSupport@msrb.org

ONLINE
MSRB.org
EMMA.MSRB.org
EMMALabs.MSRB.org
Twitter: @MSRB_News