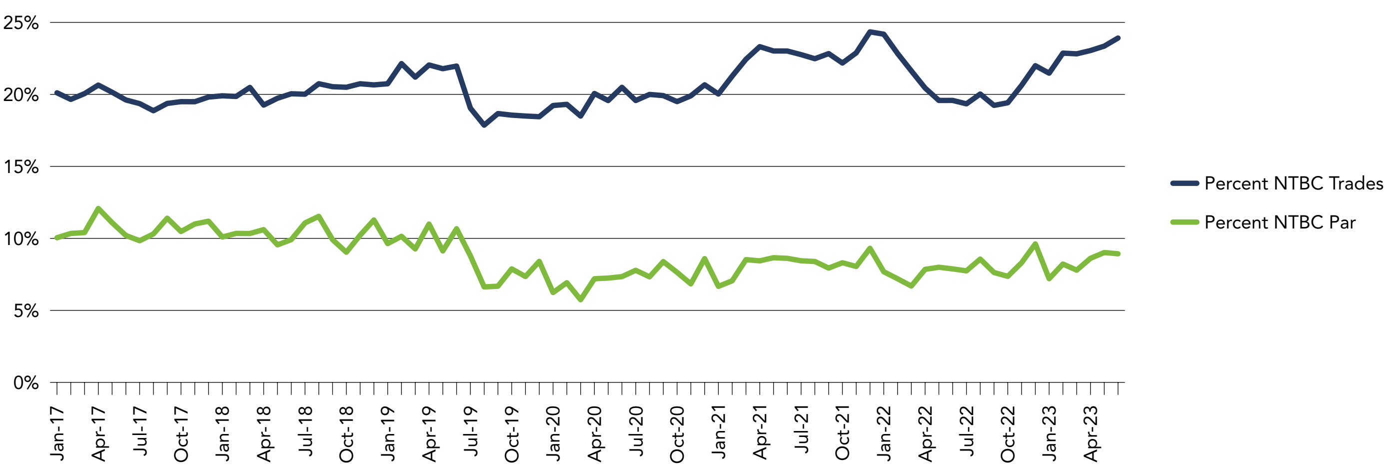
MSRB
Municipal Securities Rulemaking Board

Non-Transaction-Based Compensation (NTBC) Trade Reporting

In August 2016, amendments to MSRB Rule G-14 required dealers to use a non-transaction-based compensation (NTBC) special condition indicator when reporting certain trades to the MSRB's Real-Time Transaction Reporting System (RTRS). As stated in the G-14 interpretative guidance, "the NTBC indicator is intended to distinguish all customer transactions that do not include a transaction-based compensation component from those transactions that do include a mark-up, mark-down or commission."

While there have been notable changes in the overall municipal market since the implementation of the NTBC indicator in August 2016, likely related to the increased use of separately managed accounts and mutual funds, there have not been analogous shifts in transactions flagged as NTBC.[1] On average, 20% of customer trades were flagged as NTBC each year between 2017 and 2020 before increasing to 23% in 2021, dropping to 21% in 2022 then increasing back to 23% in the first six months of 2023. Meanwhile the percentage of par traded in NTBC trades decreased from 11% in 2017 to 8% in 2021, where it remained through the first half of 2023. (See Figure 1.)

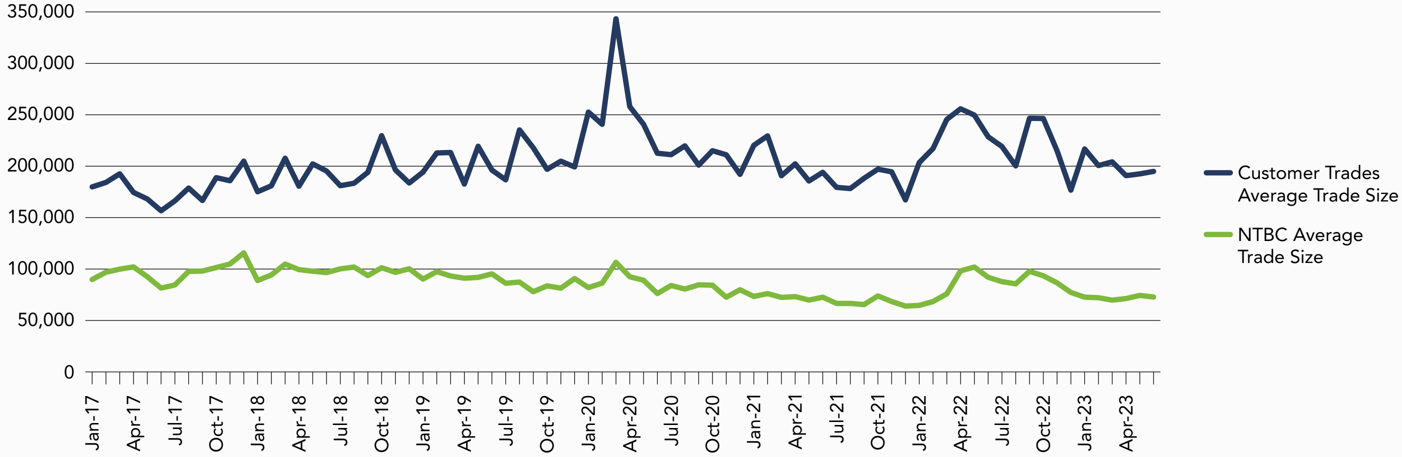
Figure 1. Percent of Customer Trades and Par Reported as NTBC, January 2017–June 2023



[1] All following analysis excludes trades of variable rate bonds and short-term instruments under nine months including variable rate instruments, auction rate products and commercial paper.

Overall, the average trade size for all customer trades has increased from an annual average trade size of $179,188 in 2017 to $199,990 during the first six months of 2023. This increase is driven largely by an increase in individual-sized customer purchases and in institutional investor-sized par traded as discussed in detail in the published report "2022 Municipal Market Year in Review." However, NTBC trades (on average smaller than other customer trades) have experienced a 26% decrease in average trade size, from an annual average trade size of $97,032 in 2017 to $72,218 in the first half of 2023. (See Figure 2.)

Figure 2. Average Trade Size for Customer Trades and NTBC Trades, January 2017–June 2023[2]



[2] Due to a change in business models by certain firm(s) in the municipal bond market, there was a sharp decrease in reported NTBC trades in June 2019.

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.

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