

Bond Case Briefs

Municipal Finance Law Since 1971

MSRB Publishes Report on Secondary Market Trading in the Municipal Securities Market.

Alexandria, VA - The Municipal Securities Rulemaking Board (MSRB) today published a report on municipal market trading patterns, associated pricing and the effect of price transparency on pricing. The report, which is the first of its kind from the municipal market regulator, provides a baseline set of statistics about municipal bond trading to enable market stakeholders and the MSRB to make further advancements toward a fairer, more efficient and more transparent municipal securities market.

"This report provides a highly detailed benchmark analysis on secondary market trading from the MSRB, an independent and objective source of information, and the key regulator of the municipal securities market," said MSRB Executive Director Lynnette Kelly. "The MSRB supports the use of data in its oversight of the market and encourages further analysis by others into the intricacies of municipal market trading."

The study, conducted by Erik R. Sirri, professor of finance at Babson College and former director of the Division of Trading and Markets at the Securities and Exchange Commission (SEC), analyzed 43 million secondary market principal trades in over 1 million fixed-rate, tax-exempt municipal securities reported by municipal securities dealers to the MSRB during calendar years 2003-2010. The report largely confirms and expands on earlier assumptions about municipal market structure and trading patterns and analyzes extensively for the first time, various trading patterns and practices in the municipal securities market.

The MSRB's [Report on Secondary Market Trading in the Municipal Securities Market](#) describes the overall effect on pricing of different patterns related to the movement of municipal bonds through the marketplace between and among investors through dealer intermediaries. In particular, the study examines pricing differentials between two consecutive (or paired) trades in a security, and when a security is sold by an investor (or customer) into the marketplace, through one or more municipal securities dealers, to another investor purchasing that security.

A key finding is the reduction in pricing differentials for customer-to-customer trades following the implementation of real-time trade reporting in 2005, when the MSRB made municipal transaction prices publicly available within 15 minutes of execution of the trade.

The report also examines varying pricing differentials for different types of paired trades in the municipal securities market, outlining the relationship of pricing differentials to:

- the amount of time between the initial customer sale and the final customer purchase;
 - the number of dealer intermediaries involved between the initial customer sale and the final customer purchase; and
 - the trade size of the municipal securities being bought and sold
- The MSRB encourages further academic research on municipal securities trading as it continues to address the need for potential changes in municipal market structure through rulemaking and/or

additional disclosure and transparency.