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MSRB Market Structure Experts Examine Municipal Securities Pre-Trade Data from Alternative Trading Systems.

WASHINGTON, DC - Market structure experts at the Municipal Securities Rulemaking Board (MSRB) today shared their [analysis of pre-trade quote data for municipal securities available to market participants on alternative trading systems \(ATSs\)](#), adding to the literature on pre-trade price transparency.

In recent years, financial economists, regulators and policymakers have been exploring whether pre-trade quote data contributes to price transparency in the municipal securities market. Pre-trade transparency typically refers to broad public dissemination of information, including quote data (bid- and offer-side) signaling trading interests available on electronic or proprietary trading systems, as well as new issue pricing information, yield curves, evaluated prices and other material information. However, unlike other pre-trade information, pre-trade quote data is normally available only to market participants. Today's report, *Analysis of Municipal Securities Pre-Trade Data from Alternative Trading Systems*, suggests that posted quote information may be useful to a broader audience when it comes to price discovery purposes but that more study is necessary to make any definitive conclusions.

"Potentially, pre-trade information could provide investors and all other market participants with important information that is currently only accessible to select market participants," said MSRB Chief Economist Simon Wu, one of the authors of the report. "This information could improve pricing efficiency, investor confidence and market liquidity in the municipal market, but additional analysis and feedback from stakeholders is needed."

The MSRB obtained quote data from two ATSs predominant in the municipal securities market. Both platforms voluntarily provided pre- and post-trade data, including Request-for-Quote (RFQ) data (bids and offers wanted), live quotes and associated transaction data. Prices for executed customer trades, as well as inter-dealer trades on and off the platforms seemed to be correlated to the best offer quotes on the platform at the time of a trade, suggesting that posted offer quotes could provide a useful market indicator of municipal securities. According to the analysis, most live quotes, which are available to participants on an ATS, are offer quotes, as opposed to bid quotes. On the other hand, most of the RFQ data are for bid responses rather than offers. Further, RFQ data may only be viewable by participants involved in the request process, which presents possible pricing information discrepancies, depending on the level of participation.

Key findings in the report include:

- Almost 70% of the trades reported to the MSRB had a live offer quote on at least one of the two ATSs at the time of a trade execution;
- Over 90% of the quoted municipal bonds had only one or two offer quotes on each ATS at any given time;
- The median difference in price between customer buy trades and the best offer quote at the time of trade was 75 basis points (\$7.50);

- The median difference in price between customer sell trades and the best offer quote at the time of trade was 73 basis points (\$7.30);
- On average inter-dealer trades occurred at the best offer price;
- RFQs received a median of three responses;
- As the number of respondents to an RFQ rises, there is an increased likelihood that an RFQ will result in a trade.
- 75 percent of RFQs did not result in a trade.

Wu will present the findings of the report at the upcoming [U.S. Securities and Exchange Commission's \(SEC\) Fixed Income Market Structure Advisory Committee meeting](#) on October 29, 2018.

The MSRB studies market structure issues related to municipal securities as part of its mission to promote a fair and efficient market. It welcomes input from stakeholders on additional research ideas that would contribute to a better understanding of municipal market dynamics. [Access MSRB data reports and analysis.](#)

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Contact: Jennifer A. Galloway, Chief Communications Officer
202-838-1500
jgalloway@msrb.org

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