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Muni-Bond Trading Evolves.

Slowly but surely, change is coming to municipal bond trading.

For brokers, tech providers and trade-venue operators seeking to modernize transactions, the \$3.8 trillion muni-bond market has all the challenges, in spades — small issue size, little standardization, and a highly dispersed network of buyers and sellers. When a local savings and loan needs to buy a municipal bond backing a toll road on behalf of a wealth management client, the S&L representative historically has picked up the phone to do so.

Electronic trading has gained traction in government and corporate bonds, so technology providers and trading-platform operators are looking to export advances in those markets to their fixed income cousin. It is expected to be a long path with incremental gains, very much an evolution rather than a revolution.

“It’s not going to be an overnight change where all the tools and protocols that happen over voice will appear on a platform on day one,” said Amanda Meatto, Head of Sales and Relationship Management at fixed income marketplace Tradeweb Direct. “The wide range of securities and deals in the municipal marketplace make it more complex.”

“What we see happening in munis is a phased approach, where step one is enhancing liquidity, connecting people with as many broker-dealers as possible, and automating small workloads that are very manual today,” Meatto continued. “Those are the simpler parts of electronifying a product. There will be multiple stages of innovation from there, driven by the needs of buy-side and sell-side institutions.”

While only 12 to 15 percent of municipal bond trading volume is conducted electronically, uptake by financial institutions is moving the needle. In 2018, 62% of buy-side firms traded munis on a screen, up from 51% two years earlier, according to a Greenwich Associates report published in 2Q 2019.

“Investors — primarily asset managers and hedge funds — are increasingly looking to e-trading platforms for order execution,” Greenwich wrote. “The largest institutions are a leading indicator of technology adoption.”

One unique characteristic of the muni market is a comparatively small average trade size, in the order of \$100,000-\$200,000. High net worth individuals are an important presence in the muni market, especially via the \$6.8 billion parked in separately managed accounts; Tradeweb is aiming to better connect institutions with this retail order flow.

Last month, the platform operator [announced](#) a partnership with InvestorTools, a provider of portfolio management and credit analysis systems for institutions, to enable straight through processing for municipal bond trades executed by Tradeweb Direct clients.

“The portfolio manager sits in InvestorTools to make decisions, and the next part of the workflow is execution,” Meatto explained. “It was a natural progression for us to link up to streamline the PM’s

or trader's pivoting from choosing bonds, to looking for liquidity and then executing."

Meatto noted that the muni-bond market lends itself to electronic trading in the sense that buyers often search on criteria, such as duration and coupon, rather than coming in to buy one specific issue as is often the case in corporates and Treasuries. As there were an estimated 1.02 million different muni issues as of February according to Greenwich, electronic platforms can make inventory searches manageable.

Going forward, the challenge for electronic trading is to move beyond just the smaller, so-called odd lot trades and make headway in deals north of \$1-\$2 million. "How do we electronify two people speaking to each other to agree on a price?" Meatto asked. "That is going to be a huge part of electronifying the round-lot marketplace for muni bonds."

By Markets Media'

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