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Electronic Muni Debt Platform Gains Traction with Ohio.

A new trading platform dedicated to a niche area of the $3.8tn US municipal debt market has managed to entice the state of Ohio to issue debt on the venue, highlighting efforts to electronify even the most old-fashioned, recondite corners of the bond market.

Ohio will later this month price a “variable rate demand obligation” — a municipal bond where the interest rate resets periodically and that can be sold back to the issuer — on Clarity Bidrate Alternative Trading System, an arm of Arbor Research & Trading founded by Robert Novembre, a former Citi trader.

In a statement, Seth Metcalf, the deputy treasurer of Ohio, said: “The Treasurer’s Office is excited about the opportunity to lower interest costs for Ohio taxpayers by leveraging Clarity’s innovative technology to increase market competition through better price transparency and democratised access to Ohio paper.”

Clarity is talking to several other potential issuers to follow Ohio later this year. The platform has so far signed up 19 subscribers, mostly investors and two banks, and four more are in the process of being brought on board.

“Getting a bond issuer to step up was the final step,” said Mr Novembre “Ohio will help ignite this new market. We want to be the NYSE for variable-rate securities.”

Clarity is one of a clutch of new alternative trading venues that are attempting to revolutionise how the bond market is traded. While stocks are overwhelmingly traded on equity exchanges at hyperfast speeds, and US Treasuries are now mostly traded electronically, much of fixed income is still largely transacted via phone.

When compared with the infrastructure of corporate debt, the US municipal bond market is considered archaic.

“It’s a good market, but it falls somewhere between inefficient and broken,” Mr Novembre said. “Some people are ready to embrace change, and some are not. Are [bond] markets in need of more technology to bring more efficiency? To my mind the answer is absolutely yes.”

The details of Ohio’s VRDO issue are due to be released this month, but it will be “midsized” according to Mr Novembre. Sizes in the market typically vary from $7m to $75m.

Most of the new bond trading platforms, such as George Soros-backed Trumid, are focused on the corporate bond market, but Clarity’s technology is oriented around variable-rate securities like VRDOs. The $180bn VRDO market gives municipalities access to long-term financing at shorter-term, floating interest rates.

Short-term municipal borrowing rates have climbed sharply this year, as long-awaited regulatory changes have caused an investor exodus from money market funds that make up a big part of the investor base. The yield of the Sifma Municipal Swap Index — the market’s biggest benchmark —

climbed to an eight-year high of 0.87 per cent last week, which Clarity hopes will burnish its lustre to municipal borrowers that want to attract new investors to the market.

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