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Pre-Trade Market Activity: What Has Changed Since 2015?

Abstract

Since releasing a research report on pre-trade market activity in October 2018 (based on data from 2015), the Municipal Securities Rulemaking Board (MSRB) has obtained more recent quote data from the same two alternative trading systems (ATSs) with a significant presence in the municipal securities market and conducted an in-depth analysis for the period from June 1, 2018 through November 30, 2018. The analysis indicates that there was a significant increase in the amount of responses to Request for Quotes (RFQs, also known as “bid-wanted”) and live quotes in the three-and-a-half-year timespan between 2015 and 2018. For RFQs, the preliminary analysis confirms the results from the prior analysis that the execution rate on an ATS platform was higher when more responses were received. For live offer quotes, the analysis indicates that live quotes increasingly provided a valuable pricing indicator to the market, even though a majority of live quotes only represented one (offer) side of the market and 22% of all trades (and 58% of inter-dealer trades) were executed on an ATS platform. Quoted offer prices may have become more visible to market participants, and more informative to execution prices for inter-dealer, customer buy and customer sell trades, as a result of increased quote provision and offer price competition.

The authors welcome feedback and suggestions on this report as well as recommendations on additional data and analysis that could be helpful to municipal market stakeholders. Please contact Simon Wu, MSRB Chief Economist, at swu@msrb.org or 202-838-1500.

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Municipal Securities Rulemaking Board

by Simon Wu, Ph.D.

Chief Economist at Municipal Securities Rulemaking Board

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