Bond Case Briefs

Municipal Finance Law Since 1971

Real-Time Financial Reporting Improves Muni Bond Markets.

A team of researchers from the UO Department of Finance found three-fold benefits when the gap in trade reporting in municipal bond markets changed from a full day to fifteen minutes after implementation of the Real-Time Transaction Reporting System.

Their findings demonstrate that municipalities can benefit from the real-time reporting system through more efficient capital markets, creating benefits for society because municipal bond offerings fund infrastructure investments that often improve quality of life, education and public safety.

In "The Difference a Day Makes: Timely Disclosure and Trading Efficiency in the Muni Market," which was published online ahead of print in the Journal of Financial Economics, the authors John Chalmers and Z. Jay Wang, professors of finance in the Lundquist College of Business at the University of Oregon, and Steve Yu Liu, who earned a doctorate at the UO and is now with the Department of Business and Information Technology at the Missouri University of Science and Technology, assess the reporting system's impact on muni markets.

By assessing data surrounding the time that Real-Time Transaction Reporting System was implemented, the study demonstrates how real-time price discovery has transformed municipal bond trading, investing and, potentially, the cost of financing civic projects. The researchers argue that faster and more accurate disclosure in the $4 trillion over-the-counter municipal bond market leads to efficiencies that are likely to benefit investors, issuers and ultimately taxpayers.

"First, we find a significant reduction in transaction costs that varies with investor sophistication," they wrote in the paper. "Second, we find significant increases in municipal trading volume across the liquidity spectrum. Third, we find that dealers increased market-making activities after the introduction of the Real-Time Transaction Reporting System."

An alternative explanation for the findings, they noted, is that they could reflect overall improvement in access to information in over-the-counter markets due to the increased use of online resources in the period surrounding the implementation of the real-time reporting system. To address this concern, the authors selected a subset of corporate bonds as a control group.

These corporate bonds were not subject to similar changes in disclosure requirement in the sample period and should have captured the impact of common improvements to the over-the-counter markets. By comparing the changes in trading costs between the municipal bonds and the control group, the authors were able to isolate the effects of Real-Time Transaction Reporting System, apart from other factors.

More timely disclosure in the municipal bond markets was a particular boon to investors, with the average trading costs declining by 30 basis points or 14 percent. Interestingly, they noted, the impact of the real-time reporting varies significantly across investor sophistication. While retail investors benefited mainly from a reduction in dealer's costs of intermediating trades, sophisticated

traders were able to take advantage of more timely trading information and negotiate better trading terms with dealers, reflecting improved bargaining positions.

The authors also studied the impact of the reporting system on bond dealers' market making activities. They find an increase in trading volume for all bond liquidity groups sorted by pre-RTRS trading volume. Consistent with this, the researchers found, dealers committed more capital and were more actively engaged in intermediating municipal bond trading in the post-RTRS period. These findings alleviate concerns that bond dealers may decrease market-making efforts due to deteriorating bargaining positions.

While switching to real-time reporting incurs additional costs, the research suggests that the sacrifices are likely to be well worth it for both investors and bond dealers. Further, by taking costs out of the system and improving investor welfare, municipalities benefit.

—By Michael Maiello, for the Lundquist College of Business

November 11, 2020

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com