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In the Muni Market, Financial Disclosures DO Matter to Investors.

The usefulness of municipal bond issuers' financial disclosures is a source of considerable debate. Our paper, "*The Information Content of Municipal Financial Statements: Large-Sample Evidence*," provides evidence that disclosure matters to municipal bond investors, particularly the retail investors who dominate the market. Using the entire universe of annual financial disclosures from 2009 to 2020, collected by the Municipal Securities Rulemaking Board—412,947 in all—we find that trading activity in the secondary market for municipal bonds increases after disclosures are filed. We find that trading activity increases by 2 percent to 3 percent around filings of annual financial statements, a small but meaningful increase.

Both institutional and retail trades increase around disclosure filing, but the effect is pronounced for retail investors, for whom the reports are more likely to provide new information. Moreover, trading increases more after timelier disclosures, consistent with regulators' views that untimely disclosures are less likely to provide new information. We also examine variation in investors' responsiveness to disclosure, based on the content of the disclosures. In general, disclosures that indicate the bond is risky are associated with a pronounced response.

Our results contrast with earlier research and provide the first large-scale evidence that participants in the U.S. market for municipal bonds perceive financial disclosures to have informational value.

Download the full paper.

The Brookings Institution

by Christine Cuny, Ken Li, Anya Nakhmurina, and Edward Watts

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